

blueenergy limited

FINANCIAL REPORT FOR THE YEAR
ENDED 30 JUNE 2014

BLUE ENERGY LIMITED
ACN 054 800 378

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D I R E C T O R S ' R E P O R T

The Directors of Blue Energy Limited ("the Company", "Blue Energy" or "BUL") submit herewith their report on the Company and its controlled entities ("the Group" or "the Consolidated Entity") with respect to the financial year ended 30 June 2014.

DIRECTORS

The names and particulars of the Directors of the Company in office during or since the end of the financial year are as follows:

| Name | Position | Date Appointed |
|-------------------|-------------------------------|----------------|
| John Ellice-Flint | Executive Chairman | 05/04/2012 |
| John Phillips | Managing Director (Executive) | 28/06/2010 |
| Karen Johnson | Non-executive Director | 30/09/2011 |
| Rodney Cameron | Non-executive Director | 15/11/2011 |
| Johoo Maeng | Non-executive Director | 12/02/2013 |

John Ellice-Flint BSc (Hons) Harvard, AMP

Mr John Ellice-Flint is an Australian-born business man whose foresight and wide-ranging oil and gas industry credentials are recognised internationally. John has over 40 years of exploration, production, operations and commercial experience in the oil and gas industry and has held many senior positions with multinational exploration and production companies. John's achievements in the oil and gas industry are well-known and highly respected. Following a 26 year international career at Unocal Corporation, serving in a variety of senior executive roles within strategic planning, exploration and technology functions, John became Managing Director and CEO of Santos Limited, Australia's largest domestic gas producer, from 2000 – 2008. John guided Santos Limited through a major growth period which culminated in the recognition of the potential of coal seam gas development through the Gladstone LNG export project in Queensland.

John Phillips BSc (Hons), GAICD

John is a Petroleum Geologist with 30 years experience in the oil and gas industry. John joined Blue Energy as Chief Operating Officer in May 2009, was promoted to CEO in April 2010 and joined the Board of Blue Energy in June 2010. John's career in industry has involved conventional oil and gas and coal seam gas experience in a variety of petroleum basins both domestically and internationally. John has gained extensive operational experience through his involvement with Delhi Petroleum, Esso, Conoco, Petroz and Novus, culminating in his role as Chief Operating Officer with Sunshine Gas before its takeover by QGC and subsequently by the BG Group.

Rodney Cameron BComm (Hons), MBA, MFM, FAICD, CPA

Rodney has over 30 years industry experience, particularly in the energy and resources industries. He is a seasoned financial executive having been CFO for an ASX listed multi-national renewable energy company, as well as an executive director and CFO for a US multi-national independent power generation company. Rodney has also worked in various management capacities for National Australia Bank, Rio Tinto, Telstra, and Atlantic Richfield Inc.

Karen Johnson BComm, FCA

Over the last 20 years Karen has held senior roles specialising in audit, assurance, technical and corporate governance consulting and financial accounting engagements within Chartered Accounting firms, public sector entities and private companies. Karen brings to the Board strong technical accounting skills through knowledge and application of Australian Accounting and Auditing Standards and an ability to quickly grasp complex business operations and identify the key risk areas for analysis, risk assessment and critical evaluation.

Jooho Maeng B.Man, MBA

Mr Jooho Maeng is the nominee of Korea Gas Corporation (KOGAS), the largest LNG importer in the world. He has gained his extensive knowledge and experience in Asian LNG Markets over the last 20 years in roles within KOGAS. During this time, he has built strong relationships with LNG companies in Japan and China. He also has over 10 years' experience in the development of projects such as DS LNG, LNG Canada, Prelude and GLNG. With respect to the Prelude and GLNG Project, Mr Maeng has been involved from the beginning of these projects. This keen interest in the Australian gas industry has led to his appointment as a director of KOGAS Australia, one of the four shareholders in the GLNG Project.

Directorships of other listed companies

Directorships of other listed companies held by current Directors in the three years immediately before the end of the financial year are as follows:

| Name | Company | Period of directorship |
|-------------------|-----------------------------------|------------------------|
| John Ellice-Flint | Clean Seas Tuna Limited (ASX:CSS) | Dec 2009 to May 2012 |

COMPANY SECRETARY

The Company Secretary for the financial year up to 30 June 2014 is Stuart Owen, appointed 14 July 2010. Mr Owen was also Chief Financial Officer and has a wide experience in the energy sector in coal and gas fired power generation including the use of landfill gas and liquefied natural gas. Stuart has held wide ranging commercial management and finance roles, including as Commercial Manager for Energy Developments Limited. Prior to this role, Stuart was commercial manager on the delivery of a multi-site gas fired power generation project and micro LNG plant. Stuart also has experience in the project financing, mergers and acquisitions and project development. Stuart completed his contract on 30 June 2014 and finished with the Company on expiration of his contract.

From 1 July 2014 Damien Cronin MQLS, MAICD has been again appointed Company Secretary after Mr Owen completed his contract.

Mr Cronin is a solicitor who has nearly 30 years' experience in the oil and gas and resources sectors. He has held senior legal and commercial roles with Rio Tinto, Shell, Duke Energy and Incitec Pivot. He is a non-Executive Director and Company Secretary of Global Petroleum Limited and was previously the Company Secretary of Sunshine Gas Limited and Secretary of the Operating Committee of the Sonoma Coal Mine Joint Venture. Mr Cronin is also Company Solicitor of Blue Energy Limited.

DIRECTORS' REPORT

EARNINGS PER SHARE

| | 2014 (Cents) | 2013 (Cents) |
|------------------------|-----------------|-----------------|
| Basic loss per share | (0.47) | (1.14) |
| Diluted loss per share | (0.47) | (1.14) |

DIVIDENDS

No dividends were paid or declared by the Company during the financial year. The Directors do not recommend the payment of a dividend (2013: \$nil).

PRINCIPAL ACTIVITIES

Blue Energy Limited is an energy company that undertakes the exploration, evaluation and development of conventional and unconventional oil and gas resources. This activity is carried out in a single significant geographical segment, being Australia, principally in Queensland. There has been no change in the principal activities of the Company from the prior year.

OPERATING AND FINANCIAL REVIEW

Reserve and Resource Upgrades

During the year the Company achieved a 10% increase in 2P gas reserves to 55 Petajoules (PJ) and a 7% increase in its 3P gas reserves to 200PJ in the Company's wholly-owned ATP814P in the Bowen Basin, Queensland. The Company continues to work with Netherland, Sewell and Associates Inc (NSAI) on providing an update on the reserve and resources position for ATP814P. Delays have been experienced in the provision of a full data set by other parties to the data sharing agreement for the region. The reserve update is now scheduled to be completed by the end of current calendar year. Blue Energy's Sapphire Block of ATP814P is located immediately adjacent to Arrow Energy's Moranbah Gas Project which currently supplies gas to Townsville users but is also targeted to provide feed gas for Arrow Energy's proposed LNG export facility in Gladstone.

| Permit | Block | 1C (PJ) | 1P (PJ) | 2C (PJ) | 2P (PJ) | 3C (PJ) | 3P (PJ) |
|--------------------|-----------|------------|----------|------------|-----------|--------------|------------|
| ATP854P | | 22 | - | 47 | - | 101 | - |
| ATP813P | | - | - | 42 | - | 548 | - |
| ATP814P | Sapphire | 75 | - | 127 | 50 | 224 | 178 |
| | Central | 27 | - | 81 | - | 438 | - |
| | Monslatt | - | - | 476 | - | 1,693 | - |
| | Lancewood | 7 | - | 11 | 5 | 421 | 15 |
| | South | 15 | - | 27 | - | 30 | 6 |
| Total (PJ) | | 146 | - | 811 | 55 | 3,455 | 199 |
| Total (bcf) | | 146 | - | 811 | 55 | 3,455 | 199 |

Competent Person Statement

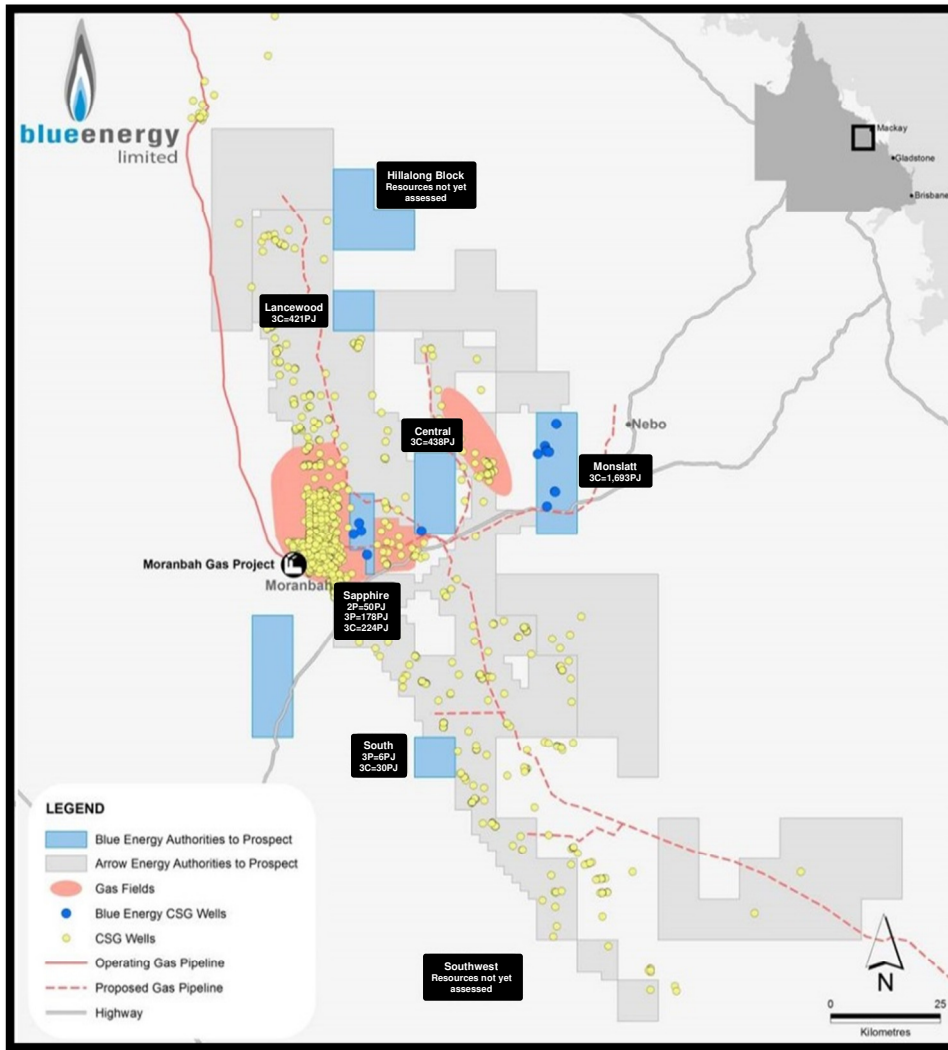
The estimates of Reserves and Contingent Resources have been provided by Mr John Hattner of NSAI. Mr Hattner is a full time employee of NSAI, has over 30 years of industry experience and 20 years experience in reserve estimation, is a licensed geologist, and has consented to the use of the information presented herein. The estimates in the report by Mr Hattner have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum and Resource Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

ATP854P – Surat Basin

The prospect of an additional coal seam gas (CSG) play has been identified by the Company within the 100% owned ATP854P block. Based on available existing geologic data, the potential of the Early Permian Cattle Creek Group has been recognised by the Company as an additional CSG prospect in the north east corner of ATP 854P – adjacent to the producing Spring Rock field operated by the GLNG consortium.

Blue Energy currently has 100 PJ of 3C Contingent Resource (assessed by NSAI) attributed to the Late Permian Bandanna Coal Measures in ATP854P, which is located immediately west of the Fairview CSG field, the main feed gas source for GLNG's Gladstone export LNG facility.

Data from the Spring Rock wells indicates net coal thickness in the Cattle Creek up to 25 metres with measured gas contents up to 17 m³/tonne (from available desorption data). The depth of the Cattle Creek Coals in the Spring Rock area average approximately 450 metres. Blue Energy believes these coals extend into ATP 854P and is currently assessing the volumetric significance of the play for Blue Energy.



ATP814P – Bowen Basin

The Company believes work is well advanced on the Front End Engineering and Design phase of the planned Moranbah – Gladstone pipeline. Construction of this pipeline link is crucial for the massive volumes of Permian CSG existing around Moranbah – including Blue Energy’s 2P and 3P Reserves – to be sold as feed gas to any of the three massive LNG Liquefaction plants in Gladstone. It is expected that the first of these LNG facilities will commence supplying gas to the global market late in 2014.

The Company continues to work with NSAI on providing an update on the reserve and resources position for ATP814P, which is scheduled to be completed by the end of the current calendar year.

ATP1114A, 1117A, 1123A – Southern Georgina Basin Qld

The blocks secured by Blue Energy cover an area of approximately 5,630,000 acres (22,788km²). At this stage, award of the blocks requires both Native Title Agreements to be negotiated and Environmental Authorities to be issued by the Queensland Government. Blue Energy has initiated discussions with the representatives of the Bularnu Waluwarra and Wangkayujuru People with a view to commencing negotiations shortly. There continues to be significant exploration activity in

Permits adjacent to the Company’s Application areas.

Significant amounts of core have been collected from several of the wells in the Petrofrontier/Statoil Joint Venture campaign and this is being analysed by the Joint Venture. Reports by Petrofrontier suggest that its independent petrophysical analysis of the acquired data from the OzAlpha 1 and Oz Beta 1 Statoil wells identifies net oil pay in these two wells which are located adjacent to Blue Energy’s ATP 1123A application block. It is also reported by Petrofrontier that Statoil plans to return to these two wells and conduct completion and fracture stimulation operations to establish potential for hydrocarbon flow from the target formation.

In addition to the Statoil/Petrofrontier activity, the Total/Central Petroleum Joint Venture commenced a four well drilling program in the Southern Georgina Basin with the spudding of the first well Whitely 1, in ATP 912P. This permit is immediately adjacent to Blue Energy’s ATP 1123A application block.

The dry season in the northern parts of the Northern Territory has also seen spudding of several exploration wells in the Greater McArthur Basin area. The focus of the drilling activity is the potentially massive hydrocarbon resources of the unconventional plays in the Roper Group (Velkerri Shale) and the McArthur Group (Barney Creek Shale and its equivalents).

Santos spudded its Tanumbirri 1 farm in well with Tamboran Resources in EP 161 and is to target the Velkerri Shale in the Beetaloo sub-basin. Pangaea (private company) completed a fully cored stratigraphic well targeting the McArthur Group equivalent sequences in EP 168 and Beach Energy was drilling its Cullen 1 well in the onshore Bonaparte Basin targeting the Carboniferous (Milligans Formation and Langfield Group) and the Devonian (Ningbing and Cockatoo Group) sequences.

The activity highlights the growing geological interest and farm in deal commitments in these northern basins.

ATP613P, 674P & 733P – Maryborough Basin

The Company purchased the remaining 25% of ATP 674P and ATP733P during the financial year from Beach Energy Ltd and now owns 100% of these permits.

In late December 2012 the two application areas (ATP674A and ATP733A) were granted and planning is being undertaken to identify suitable location for exploration and evaluation activity on these permits.

Cooper Basin (ATP 656A, 657A, 658A, & 660A Blue Energy 100% - and Operator)

As announced to the market in June, Blue Energy has been granted 4 large ATP’s on the under-explored Northern Flank of the Cooper/Eromanga Basins in Queensland. The effective grant date for all four permits is 1st July 2014.

DIRECTORS' REPORT

The Company notes increased interest in the Northern Flank by other explorers, including Beach Energy and Drillsearch which earlier this week announced a commitment to this sparsely explored area of the Cooper Basin.

The Blue Energy permits encompass an area of 5,200 square kilometres with the Ballera-to-Mt Isa gas pipeline traversing one of the permits, ATP657P.

The Inland Oil field is immediately adjacent to the permit areas, and the Santos-operated Cook and Cuisinier oil fields are on trend and in close proximity to Blue Energy's ATP656P.

| Granted Permit | Area Km2 | BUL Equity/Operator |
|----------------|--------------------------------|----------------------------------|
| ATP656P | 694 km2 | 100% / Blue Energy (Qld) Pty Ltd |
| ATP657P | 1,627 km2 | 100% / Blue Energy (Qld) Pty Ltd |
| ATP658P | 1,397 km2 | 100% / Blue Energy (Qld) Pty Ltd |
| ATP660P | 1,482 km2 | 100% / Blue Energy (Qld) Pty Ltd |
| | 5,200 km2 (1.28 million acres) | |

These permits have had no exploration conducted over them since the mid-1990s, when they were part of the areas required to be relinquished by the Santos/Delhi-led Joint Venture.

Since that time, the Cooper Basin 'flank oil play' has developed beyond the original Jackson-Nacowlah trend in Queensland and is now well understood and seen to occur on all margins of the basin. As evidenced by the newly-discovered exploration/production fairway along the western flank in the South Australian part of the Basin.

The Bridgeport operated Inland oilfield (discovered in the mid 1990's) lies immediately north of Blue's ATP 657P and highlights the proven nature of the Northern Margin oil play. The lack of a concerted and sustained exploration effort over the last 20 years has led to this play being severely under exploited. Modern seismic will be key to un-locking the potential of this Northern Basin Margin.

Despite only being granted the permits on 1st July this year, Blue Energy is nearing completion of its initial Geological and Geophysical data compilation and remapping exercise (i.e. the Year 1 work program) to quantify prospectivity of the blocks. Other Operators are actively acquiring 3D seismic surveys adjacent to the Blue Energy permits, and it is expected that drilling by those Operators in the area will also commence soon.

Funding Arrangements

The Company continues to hold sufficient cash reserves to enable the rollout of its planned work programs. Future capital raising activities will take place if and when the Board deem that such a raising of funds is appropriate.

Financial Position

The net assets of the Consolidated Entity have decreased by \$3.275 million from 30 June 2013 to \$70.210 million at 30 June 2014. The decrease has largely resulted from operational costs incurred during the financial year.

The Consolidated Entity incurred a loss after income tax for the year of \$5.3 million (2013: \$13.0 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company and Consolidated Entity during the financial year.

EVENTS AFTER BALANCE DATE

Aside from the matters disclosed regarding the award on 1st July 2014 of the Cooper Basin permits there have been no material events from 1 July 2014 to the date of this report that have come to the attention of the Company.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company expects to continue to operate as an oil and gas exploration company with specific operational focus on conventional and unconventional exploration within Queensland and the Northern Territory.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group holds various licences to regulate its exploration activities in Australia. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities.

All exploration activities have been undertaken in compliance with all relevant environmental regulations, and authorities granted to it to undertake exploration activities.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The Company has an insurance policy in place to provide Directors' and Officers' liability insurance pursuant to a Deed of Indemnity entered into by the Company with each Director and certain Officers of the Group. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability as such disclosures are prohibited under the terms of the contract.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

The Company has not otherwise during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORS' REPORT

REMUNERATION REPORT (Audited)

The Company's broad remuneration policy is to ensure each remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The objective of the Company's executive reward framework, which currently applies to Mr John Phillips (MD), and Mr John Ellice-Flint (Executive Chairman), is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness,
- acceptability to shareholders,
- transparency, and
- capital management.

The Company has structured an executive remuneration framework that is market competitive and compliments to the reward strategy of the organisation.

| 2014 | Short-Term | | | Post Employment | | Share-based Payments | | Proportion of Remuneration Performance Related | Value of Options/Rights as a Proportion of Remuneration |
|----------------------------|----------------|--------------|----------------|-----------------|----------------------|----------------------|------------------|--|---|
| | Salary & fees | Cash bonus | Other benefits | Super-annuation | Termination benefits | Options/Rights | Total | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Directors | | | | | | | | | |
| K Johnson | 59,497 | - | - | 5,503 | - | - | 65,000 | - | - |
| R Cameron | 65,000 | - | - | - | - | - | 65,000 | - | - |
| J Maeng | - | - | - | - | - | - | - | - | - |
| TOTAL | 124,497 | - | - | 5,503 | - | - | 130,000 | 0% | 0% |
| Executive Directors | | | | | | | | | |
| J Phillips ⁽¹⁾ | 375,000 | 1,000 | - | 25,000 | - | 108,628 | 509,628 | 19% | 21% |
| J Ellice-Flint | 200,000 | - | - | 17,242 | - | 1,802,275 | 2,019,517 | 89% | 89% |
| TOTAL | 575,000 | 1,000 | - | 42,242 | - | 1,910,903 | 2,529,145 | 75% | 76% |
| Executives | | | | | | | | | |
| S Owen ⁽¹⁾⁽²⁾ | 281,357 | 1,000 | 75,000 | 20,712 | - | 48,156 | 426,225 | 7% | 11% |
| TOTAL | 281,357 | 1,000 | 75,000 | 20,712 | - | 48,156 | 426,225 | 7% | 11% |
| TOTAL | 980,854 | 2,000 | 75,000 | 68,457 | - | 1,959,059 | 3,085,371 | 62% | 64% |

- (1) Mr Owen and Mr Phillips were paid a cash bonus in accordance with the exercise conditions of the Employee Incentive Rights Plan.
(2) Mr Owen left the Company on 30 June 2014 at the expiration of his contract, and was paid an ex-gratia bonus of \$75,000.

DIRECTORS' REPORT

| 2013 | Short-Term | | | Post Employment | | Share-based Payments | Total | Proportion of Remuneration Performance Related | Value of Options/Rights as a Proportion of Remuneration |
|-----------------------------|---------------------|------------------|----------------------|-----------------------|----------------------------|----------------------|------------------|--|---|
| | Salary & fees \$ | Cash bonus \$ | Other benefits \$ | Super-annuation \$ | Termination benefits \$ | Options/Rights \$ | | % | % |
| Directors | | | | | | | | | |
| P Cockcroft ⁽¹⁾ | 36,944 | - | - | - | - | - | 36,944 | 0% | 0% |
| P Massarotto ⁽²⁾ | 26,250 | - | - | - | - | - | 26,250 | 0% | 0% |
| HB Lee ⁽³⁾ | 5,000 | - | - | - | - | - | 5,000 | - | - |
| K Johnson | 60,046 | - | - | 4,954 | - | - | 65,000 | - | - |
| R Cameron | 65,000 | - | - | - | - | - | 65,000 | - | - |
| J Maeng ⁽⁴⁾ | - | - | - | - | - | - | - | - | - |
| TOTAL | 193,240 | - | - | 4,954 | - | - | 198,194 | 0% | 0% |
| Executive Directors | | | | | | | | | |
| J Phillips | 375,000 | - | 15,331 | 25,000 | - | 310,482 | 725,814 | 39% | 43% |
| J Ellice-Flint | 200,000 | - | - | 18,000 | - | 1,230,836 | 1,448,836 | 85% | 85% |
| TOTAL | 575,000 | - | 15,331 | 43,000 | - | 1,541,318 | 2,174,649 | 70% | 71% |
| Executives | | | | | | | | | |
| S Owen ⁽⁵⁾ | 282,357 | 1,000 | 4,836 | 20,197 | - | 209,697 | 518,088 | 36% | 41% |
| C Hefner ⁽⁶⁾ | 233,531 | - | 17,124 | 21,018 | - | 173,597 | 445,269 | 31% | 39% |
| TOTAL | 515,888 | 1,000 | 21,960 | 41,216 | - | 383,294 | 963,357 | 34% | 40% |
| TOTAL | 1,284,128 | 1,000 | 37,291 | 89,170 | - | 1,924,612 | 3,336,201 | 55% | 58% |

- (1) Mr Cockcroft retired from the Board on 31 December 2012.
(2) Mr Massarotto retired from the Board on 15 November 2012.
(3) Mr Lee retired from the Board on 12 February 2013.
(4) Mr Maeng was appointed to the Board on 12 February 2013.
(5) Mr Owen was paid a cash bonus in accordance with the exercise conditions of the Employee Incentive Rights Plan.
(6) Mr Hefner left the Company on 1 May 2013 at the expiration of his contract.

DIRECTORS' REPORT

Details of Remuneration of Directors and Other Key Management Personnel

Directors

On appointment to the Board, all Directors agree to terms of appointment as set out in a letter of appointment. The letter sets out the remuneration applicable and other matters such as general Directors' duties, compliance with the Company's Corporate Governance Policies, access to independent professional advice and confidentiality obligations.

The Chairman, provided they are Non-executive, receives fees of \$85,000 (2013: \$85,000) per annum, Blue Energy currently has an executive Chairman, Mr John Ellice-Flint whose remuneration is detailed below. Directors receive fees of \$60,000 (2013: \$60,000) per annum, inclusive of compulsory superannuation where applicable. Directors who are appointed to committees of the Board receive an additional \$5,000 (2013: \$5,000) per annum per committee position inclusive of compulsory superannuation where applicable. There are no termination payments applicable. The terms of appointment also include the reimbursement of reasonable business-related expenses including accommodation and other expenses that a Director or other Executive properly incurs in attending meetings of Directors or any meetings of committees of Directors, in attending any meetings of Members and in connection with the business of the Company. A Director may be paid fees or other amounts as the Directors determine where a Director performs duties or provides services outside the scope of their normal Director's duties. Mr J Maeng in accordance with an agreement with KOGAS has not been paid Directors Fees by Blue Energy.

Mr John Phillips (MD/CEO) – The contract entered into with Mr Phillips expiring 31 March 2014 has been extended for an additional two years to 31 March 2016 and incorporates termination clauses in the event of breaches by either party up to a maximum of six months' total fixed remuneration or otherwise on three months' notice.

Mr John Ellice-Flint (Executive Chairman) - On 15 February 2012, the Company entered into an employment agreement with Mr John Ellice-Flint which was subject to Shareholders approving his appointment as a Director. His appointment as Executive Director and his remuneration package was approved by shareholders at the General Meeting held on 5 April 2012. The employment agreement provides that a termination payment equal to one year's base salary if the Company terminates Mr Ellice-Flint's employment other than in certain circumstances. Mr Ellice-Flint can terminate the agreement by giving one month's notice to the Company. The agreement terminates automatically if he is removed as a Director under Part 2D.6 of the Corporations Act and Mr Ellice-Flint must resign as a director if his employment agreement is terminated for any reason. Mr Ellice-Flint does not receive any additional fees as Chairman.

Other Key Management Personnel

Key Management Personnel may be employed by the Company under a contract.

At the date of this report, the following contract had been entered into with the following key management personnel:

Mr Stuart Owen (CFO/Company Secretary) – A contract was entered into with Mr Owen for 3 years commencing 1 July 2011 incorporating a termination clause in the event of breaches by either party up to a maximum of six months' total fixed remuneration or otherwise on three months' notice. Mr Owen completed his contract and finished with the Company on 30 June 2014.

Elements of Remuneration Related to Performance

Mr John Phillips and Mr John Ellice-Flint's remuneration is linked to market based performance conditions such as reserve targets and market capitalisation. These performance conditions is in line with industry standards and practice and is also believed to align the interests of directors and executives with those of the Company's shareholders.

No element of the other Director's or Executive's remuneration is currently dependent on the satisfaction of a related individual performance condition.

Interests in Options and Employee Incentive Rights of the Company

The movement in the number of options and employee incentive rights over ordinary shares in Blue Energy Limited held directly, indirectly or beneficially, by each Key Management Person, including their related parties, is as follows:

| 2014 | Balance at 30 June 2013 Number | Granted as compensation Number | Exercised Number | Expired Number | Ceased being KMP Number | Balance at 30 June 2014 Number | Vested and Exercisable at 30 June 2014 Number | Expensed during year ended 30 June 2014 \$'000 | Percentage remuneration represented as options/rights % |
|-------------------|---|--------------------------------------|---------------------|-------------------|----------------------------------|---|---|--|---|
| Directors | | | | | | | | | |
| J Phillips | 12,901,000 | 10,345,000 | 267,000 | 3,200,000 | - | 19,779,000 | 267,000 | 108,628 | 21% |
| J Ellice-Flint | 82,473,000* | - | - | 20,618,250 | - | 61,854,750 | - | 1,802,275 | 89% |
| TOTAL | 95,374,000 | 10,345,000 | 267,000 | 23,818,250 | - | 81,633,750 | 267,000 | 1,910,903 | 76% |
| Executives | | | | | | | | | |
| S Owen** | 5,218,000 | - | 187,000 | 1,493,000 | - | 3,538,000 | 194,000 | 48,156 | 11% |
| TOTAL | 5,218,000 | - | 187,000 | 1,493,000 | - | 3,538,000 | 194,000 | 48,156 | 11% |

* These options were issued to Mr Ellice-Flint in 2012 when he joined the Company.

** Under the ESOP Mr Owen's outstanding incentive rights are due to be tested at 30 June 2015.

Value of Employee Incentive Rights issued to Directors and Other Key Management Personnel

During the financial year employee incentive rights were granted as equity compensation benefits under the terms of agreements with key management personnel as disclosed below. The employee incentive rights were granted for \$nil consideration. Each employee incentive right entitles the holder to subscribe for one fully paid ordinary share in Blue Energy at the stated exercise price.

DIRECTORS' REPORT

| 2014 | Vested | | Granted | Terms and Conditions of Each Grant | | |
|-------------------|--------|---------|------------|------------------------------------|--|--------------------------------|
| | Number | Number | Number | Grant Date | Fair Value per right at grant date \$ | Exercise price per share \$ |
| Directors | | | | | | |
| J Phillips | A | 267,000 | - | 15/11/2011 | 0.064 | nil |
| | B | - | 10,345,000 | 28/11/2013 | 0.019 | nil |
| | | 267,000 | 10,345,000 | | | |
| Executives | | | | | | |
| S Owen | A | 194,000 | - | 15/11/2011 | 0.064 | nil |
| | B | - | - | - | N/A | N/A |
| | | 194,000 | - | | | |

None of the options or employee incentive rights issued during the financial year by the Company to current Directors or Key Management Personnel are quoted on the Australian Stock Exchange or had been exercised during the financial year or up to the date of this report.

Interests in Shares of the Company

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| 2014 | Balance at 30 June 2013 Number | Granted as compensation Number | On exercise of Rights Number | On Market Purchase Number | Net Change Other* Number | Balance at 30 June 2014 Number |
|---------------------|-----------------------------------|-----------------------------------|---------------------------------|------------------------------|-----------------------------|-----------------------------------|
| Directors | | | | | | |
| J Phillips | 294,799 | - | 245,734 | 173,529 | - | 714,062 |
| R Cameron | 4,000,000 | - | - | - | - | 4,000,000 |
| John Ellice-Flint** | 52,203,500 | - | - | - | - | 52,203,500 |
| TOTAL | 56,498,299 | - | 245,734 | 173,529 | - | 56,917,562 |
| Executives | | | | | | |
| S Owen* | 1,007,068 | - | 165,734 | - | - | 1,172,802 |
| | 1,007,068 | - | 165,734 | - | - | 1,172,802 |

* No longer key management person post balance date.

** Opening balance varies to prior year financial statements closing balance of 57,956,615 shares by 5,753,115 shares which fall outside the definition of related parties.

Unissued Shares for Key Management Personnel at Balance Date

At balance date there were 64,354,750 unissued ordinary shares under option and 20,356,000 unissued ordinary shares under KMP employee incentive rights (64,354,750 and 20,356,000 respectively at the date of this report). Refer to the table below and Note 13 – Issued Capital for details. Note 13 also includes non KMP unissued shares.

Option Details

| Grant Date | Exercise Date | Expiry Date | Exercise Price \$ | Fair value at Grant Date \$ | Number of options at beginning of period | Options Granted | Options Lapsed | Options Exercised | Number of options at 30 June 2014 | Number of options vested and exercisable at 30 June 2014 |
|-------------------------|---------------|-------------|-------------------|-----------------------------|--|-----------------|----------------|-------------------|-----------------------------------|--|
| 1-May-09 ^(a) | 1-May-10 | 17-Feb-15 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-11 | 17-Feb-15 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-12 | 17-Feb-15 | 0.25 | 0.16 | 833,334 | - | - | - | 833,334 | - |
| 5-Apr-12 | 5-Apr-12 | 14-Feb-17 | 0.0625 | 0.05 | 82,473,000 | - | 20,618,250 | - | 61,854,750 | - |
| | | | | | 84,973,000 | - | 20,618,250 | - | 64,354,750 | - |

(a)

None of the options issued by the Company are quoted on the Australian Stock Exchange.

No options over shares lapsed between 30 June 2014 and the date of this report.

DIRECTORS' REPORT

The options do not entitle the holder to participate in any dividends or pro-rata share issues of the Company.

For comparative information, refer to Note 13.

Rights Details

| Effective Grant Date | Exercise Date | Type of Right | Exercise Price \$ | Fair value at Grant Date \$ | Number of Rights at beginning of period | Rights Granted | Rights Lapsed | Rights Vested | Number of Rights at 30 June 2014 |
|----------------------|---------------|---------------|-------------------|-----------------------------|---|----------------|---------------|---------------|----------------------------------|
| 01-Jul-10 | 30-Jun-13 | Performance | nil | \$0.095 | 4,693,000 | - | 4,693,000 | - | - |
| 01-Jul-11 | 30-Jun-14 | Retention | nil | \$0.064 | 461,000 | - | - | 461,000 | - |
| 01-Jul-11 | 30-Jun-15 | Performance | nil | \$0.026 | 4,753,000 | - | - | - | 4,753,000 |
| 01-Jul-12 | 30-Jun-15 | Retention | nil | \$0.059 | 466,000 | - | - | - | 466,000 |
| 01-Jul-12 | 30-Jun-15 | Performance | nil | \$0.012 | 4,792,000 | - | - | - | 4,792,000 |
| 01-Jul-13 | 30-Jun-16 | Performance | nil | \$0.019 | - | 10,345,000 | - | - | 10,345,000 |
| | | | | | 15,165,000 | 10,345,000 | 4,693,000 | 461,000 | 20,356,000 |

The fair value of performance rights granted during the year was calculated using the Monte-Carlo pricing model utilising the following inputs:

| | Note | |
|-----------------------------------|------|--------------|
| - Exercise price | 1 | \$0.00 |
| - Share Price at 30 June 2013 | 2 | \$0.042 |
| - Barrier for 100% vesting | | \$0.51 |
| - Exercise date | | 30 June 2016 |
| - Expiration date | | 30 June 2017 |
| - Vesting Period | | 3 Years |
| - Expiration Period | | 4 Years |
| - Expected share price volatility | 3 | 70% |
| - Risk free interest rate | 4 | 3.002% |
| - Dividend yield | 5 | 0% |

- In substance, the performance rights is an option with a zero exercise price.
- The underlying share price is based on the price of the security on the ASX on 30 June 2014.
- The recent volatility of the share price of Blue Energy was calculated using Hoadley's volatility calculator, using data extracted from Bloomberg.
- The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the options. (Source: Reserve Bank of Australia)
- The Company's best estimate of dividend yield, representing a discount to long-term dividend policy to reflect build-up of dividend payout over the life of the performance rights.

None of the employee incentive rights issued by the Company are quoted on the Australian Stock Exchange.

No KMP incentive rights over shares lapsed between 30 June 2014 and the date of this report. During August 2014, the payment of \$2,000 cash in accordance with the Employee Incentive Rights Plan rules occurred relating to the vesting of KMP incentive rights.

Employee Options and Incentive Rights

From previous years the Company has an Employee Share Option Plan (ESOP) in place, as well as an Employee Incentive Rights Plan (EIRP) implemented during 2010/11. During the financial year 10,345,000 employee incentive rights were granted. A total of 20,618,250 options and 6,026,000 employee incentive rights with a fair value of \$1,498,509 expired under the ESOP and EIRP. No options were exercised during the year. A total of 1,841,000 employee incentive rights were exercised during the year.

Options issued under the ESOP from 12 March 2008 onwards have two vesting conditions. The first of these being an exercise date no earlier than either 1, 2 or 3 years from grant date and secondly, the shares of the Company must trade for thirty consecutive days on the Australian Stock Exchange with a weighted average share price greater than certain share price hurdles determined by the Company. Incentive rights under the EIRP comprise retention rights and performance rights. For retention rights to vest the employee must remain with the Company for a period of 3 years from the effective issue date. The portion of performance rights that vest is determined by Blue Energy's total shareholder return (TSR) as determined by an independent advisor over the 3 year period from the effective issue date. The minimum compound annual TSR for the three years is 15% which results in a 25% vesting rate for the employee. At present, the Board has determined that the issue of performance rights will be limited to those individuals (Key Management Personnel) who have a direct ability to influence the performance of the Company.

DIRECTORS' REPORT

On vesting, the first \$1,000 of shares is paid in cash, and the balance of incentive rights will either be issued as Restricted Shares to the employee or the Company will arrange for them to be acquired for the employee's benefit by the trustee of the Blue Energy Employee Share Trust (Blue Energy EST). When Shares are to be acquired by the Blue Energy EST, the employer or Blue Energy will contribute the market value of the Shares at the time to be acquired to the trustee of the Blue Energy EST and the trustee shall apply those funds to acquire Shares by on-market purchase or subscription to a new issue as directed by the Board of Blue Energy. Restricted Shares means that they may not be sold or otherwise disposed of until first advised by the Company, which the Company shall do at the first opportunity to do so, when Shares may be sold without breaching the insider trading provisions of the Corporations Act 2001 or the Company's securities trading policy. At 30 June 2014, no shares have been issued or are held by the Blue Energy EST.

DIRECTORS' MEETINGS

The number of meetings of Directors (and Committees of Directors) held and number of meetings attended by each of the Directors of the Company during the financial year was as follows:

| | Numbers of meetings of full Board | | Risk and Audit Committee | |
|----------------|-----------------------------------|----------|--------------------------|----------|
| | Held | Attended | Held | Attended |
| J Ellice-Flint | 13 | 12 | * | * |
| J Phillips | 13 | 13 | * | * |
| R Cameron | 13 | 12 | 4 | 4 |
| K Johnson | 13 | 12 | 4 | 4 |
| J Maeng | 13 | 10 | * | * |

* Not a member of the relevant Committee.

The Nomination and Environmental Committee functions are currently handled by the full Board of Directors. This is considered appropriate at the current stage of the Company's development but will be reviewed from time to time.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 17 and forms part of the Directors' Report for the year ended 30 June 2014.

NON-AUDIT SERVICES

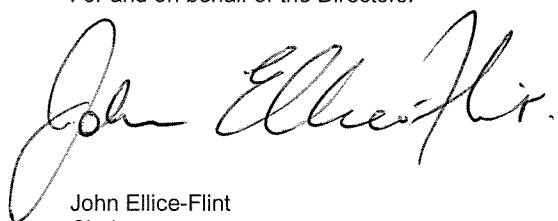
The Group's auditor, Ernst & Young, did not provide any non-audit services during the financial year. Generally, where non-audit services are provided by the Group's auditor, the Directors must be satisfied that the provision of the non-audit service is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided must not compromise the general principles relating to Auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in some cases, to the nearest dollar.

This report has been signed in accordance with a resolution of the Board of Directors made pursuant to s298 (2) of the *Corporations Act 2001*.

For and on behalf of the Directors:



John Ellice-Flint
Chairman

Brisbane
24 September 2014

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

CORPORATE GOVERNANCE STATEMENT

To ensure the Company operates effectively and in the best interests of shareholders, having regard to the nature of the Company's activities and its size, the Board has adopted the revised Corporate Governance Principles and Recommendations 2nd Edition (as amended at 30 June 2010) issued by the ASX Corporate Governance Council, subject to the exceptions noted below.

| Principles and Recommendations | Adoption Yes/No | If not, Explanation Provided |
|---|----------------------------|---|
| Principle 1 – Lay solid foundations for management and oversight | | |
| Recommendation 1.1 - Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Yes | |
| Recommendation 1.2 - Companies should disclose the process for evaluating the performance of senior executives. | Yes | |
| Recommendation 1.3 - Companies should provide the information indicated in the Guide to reporting on Principle 1. | Yes | |
| Principle 2 – Structure the board to add value | | |
| Recommendation 2.1 - A majority of the board should be independent directors. | No | Yes |
| Recommendation 2.2 - The chair should be an independent director. | No | Yes |
| Recommendation 2.3 - The roles of chair and chief executive officer should not be exercised by the same individual. | Yes | |
| Recommendation 2.4 - The board should establish a nomination committee. | No | Yes |
| Recommendation 2.5 - Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | |
| Recommendation 2.6 - Companies should provide the information indicated in the Guide to reporting on Principle 2. | Yes | |
| Principle 3 – Promote ethical and responsible decision-making | | |
| Recommendation 3.1 - Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Yes | |
| Recommendation 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. That policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them. | Yes | |
| Recommendation 3.3 - Companies should disclose in each annual report the measurable objectives set by the board in accordance with the diversity policy and progress towards achieving them. | No | Yes |
| Recommendation 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | Yes | |
| Recommendation 3.5 – Companies should provide the information indicated in the Guide to reporting on Principle 3. | Yes | |
| Principle 4 – Safeguard integrity in financial reporting | | |
| Recommendation 4.1 - The board should establish an audit committee. | Yes | |
| Recommendation 4.2 - The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the board; and • has at least three members. | Yes | |
| Recommendation 4.3 - The audit committee should have a formal charter. | Yes | |
| Recommendation 4.4 - Companies should provide the information indicated in the Guide to reporting on Principle 4. | Yes | |
| Principle 5 – Make timely and balanced disclosure | | |
| Recommendation 5.1 - Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for | Yes | |

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

| Principles and Recommendations | Adoption Yes/No | If not, Explanation Provided |
|--|----------------------------|---|
| that compliance and disclose those policies or a summary of those policies. | | |
| Recommendation 5.2 - Companies should provide the information indicated in the Guide to reporting on Principle 5. | Yes | |
| Principle 6 – Respect the rights of shareholders | | |
| Recommendation 6.1 - Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Yes | |
| Recommendation 6.2 - Companies should provide the information indicated in the Guide to reporting on Principle 6. | Yes | |
| Principle 7 – Recognise and manage risk | | |
| Recommendation 7.1 - Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Yes | |
| Recommendation 7.2 - The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Yes | |
| Recommendation 7.3 - The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes | |
| Recommendation 7.4 - Companies should provide the information indicated in the Guide to reporting on Principle 7. | Yes | |
| Principle 8 – Remunerate fairly and responsibly | | |
| Recommendation 8.1 - The board should establish a remuneration committee. | No | Yes |
| Recommendation 8.2 - The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors; • is chaired by an independent director; and • has at least three members | No | Yes |
| Recommendation 8.3 - Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives. | Yes | |
| Recommendation 8.4 – Companies should provide the information indicated in the Guide to reporting on Principle 8. | Yes | |

Principle 1 – Lay solid foundations for management and oversight

The Company has formalised the respective roles and responsibilities of the Board and Management in a Board Charter. A copy of the Board Charter is available in the Corporate Governance section of the Company's public website.

The Company has established a formal process for evaluating the performance of senior executives which involves a performance and development review cycle where responsibilities and performance objectives are defined and regular feedback is provided through structured performance review meetings which are held in July each year. The performance of all senior executives has been reviewed in accordance with this process.

Principle 2 – Structure the board to add value

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their period in office are detailed in the Directors' Report. Due to the size of the Company, there is not a clear majority of the Board who are independent directors. Given the relative size of the Company, the interests of the shareholders and the stage of its development, the Directors consider the current Board composition as appropriate. The situation will be monitored and changed in line with best practice as and when the Directors feel the company is of sufficient size.

The Company's Chairman is not an independent director as recommended by recommendation 2.2. The Board believes that given Mr Ellice-Flint's vast executive and board experience in public companies and specifically oil and gas companies that Mr Ellice-Flint is best positioned to Chair the Company's Board of Directors. The Board believes that Mr Ellice-Flint appropriately discharges his duties as Chairman.

The Board has two independent Directors and three non-independent Directors. The names of the Directors considered to be independent are:

Karen Johnson
Rodney Cameron

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

Each Director has the right to access all relevant information and, subject to prior consultation with the Chairman, may seek independent professional advice at the entity's expense. A copy of advice received by the Director is made available to all other members of the Board.

A nomination committee has not been formed under recommendation 2.4. The Board as a whole considers the composition of the Board and appointment of new Directors. The Board identifies suitable candidates to fill vacancies as they arise.

A board performance evaluation program has been designed to evaluate the performance of the board as a whole, individual directors and board committees on an annual basis. All evaluations have regard to the collective nature of board work, the operation of governance processes established in our board charters and the attainment of any goals set by the board. Board evaluation is conducted at a number of levels using a combination of assessment questionnaires and face-to-face meetings.

The performance of the board, individual directors and committees has been reviewed in accordance with this process.

The Board Charter, which includes the Company's criteria for independence of directors, is available in the Corporate Governance section of the Company's public website.

Principle 3 – Promote ethical and responsible decision-making

The Company has established a Code of Conduct which sets out the Company's key values and how they should be applied within the workplace and in dealings with those outside of the Company. A summary of the Code of Conduct is available in the Corporate Governance section of the Company's public website.

Blue Energy has established a diversity policy having regard to the suggestions set out in the new ASX Corporate Governance Principles and Recommendations. Our diversity policy covers gender, age, ethnicity and cultural background. It includes a requirement that the Company establish measurable objectives for achieving gender diversity, with progress in achieving these objectives assessed annually.

As at 30 June 2014 the company had the following proportions of women:

| | |
|--------------------------------|-----|
| On the board of directors | 20% |
| In senior management positions | 0% |
| In the whole organisation | 33% |

The Company has not set measureable objectives in accordance with the diversity policy due to the size of the Company. These objectives of the diversity policy are continually monitored by the Company.

Principle 4 – Safeguard integrity in financial reporting

The Company has formed a Risk and Audit Committee consisting of two non-executive Directors of whom all are independent as defined by the ASX Corporate Governance Council's Principles. The members of the Risk and Audit Committee during the 2013 -2014 financial year were:

| | |
|----------------|--|
| Karen Johnson | Chairman, Independent Director |
| Rodney Cameron | Non-Executive Director, Independent Director |

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report and their term in office are detailed in the Directors' Report.

The Risk and Audit Committee formally reports to the Board after each of its meetings. Details of the number of meetings of the Audit Committee during the 2014 financial year and attendance of members are set out in the Directors' Report.

The external audit firm partner or an appropriate delegate responsible for the Company audit attends meetings of the Board and Audit Committee by invitation.

The Risk and Audit Committee Charter, which includes information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners, is available in the Corporate Governance section of the Company's public website.

Principle 5 – Make timely and balanced disclosure

The Company has established a continuous disclosure policy to ensure compliance with the continuous disclosure obligations under the ASX Listing Rules and the Corporations Act and to ensure all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and balanced way.

A summary of the Continuous Disclosure Policy is available in the Corporate Governance section of the Company's public website.

Principle 6 – Respect the rights of shareholders

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders through the:

- Company website;
- ASX Company Announcements platform;
- Quarterly Operations Reports;
- Half-year Report;
- Annual Report; and
- other correspondence regarding matters impacting on shareholders as required.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and association with the Company's strategy and goals.

The Shareholder Communications Policy, designed to promote effective communication with shareholders, is available in the Corporate Governance section of the Company's public website.

Principle 7 – Recognise and manage risk

The Company has an established enterprise risk management program that during the 2010 financial year was upgraded in accordance with the new International Risk Standard AS/NZS ISO 31000:2009. It also has an established internal control program based upon the principles set out in the Australian Compliance Standard AS 3806:2006.

The Company's enterprise risk management program addresses its material business risks. Each identified risk is individually assessed in terms of the likelihood of the risk event occurring and the potential consequences in the event that the risk event was to occur. The CompliSpace Assurance software has been implemented through which material business risks are linked to mitigating controls. This software gives the Company the ability to monitor the performance of its enterprise risk and compliance programs in real time. It also ensures transparency of data and ease of reporting to the board.

Management has provided to the Board a report as to the overall effectiveness of the Company's management of its material business risks during the 2014 financial year.

The Board has received assurance from the CEO and Finance Manager that in their view:

- the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control; and
- the system of risk management and internal control, to the extent that they relate to financial reporting, are operating effectively and efficiently in all material respects.

A summary of our risk management program is available in the Corporate Governance section of the Company's public website.

Principle 8 – Remunerate fairly and responsibly

The Company does not have a dedicated Remuneration Committee but rather the task of ensuring that the level of director and executive remuneration is sufficient and reasonable and that its relationship to performance is clear and is dealt with by the full Board. The Board Charter is available on the Company's public website.

Senior executives and directors are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity based remuneration packages, such as options and employee incentive rights.

- . . -



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Auditor's Independence Declaration to the Directors of Blue Energy Limited

In relation to our audit of the financial report of Blue Energy Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Tom du Preez
Partner
24 September 2014

FINANCIAL STATEMENTS

**Consolidated Statement of Comprehensive Income
FOR YEAR ENDED 30 JUNE 2014**

| | Note | 2014 \$'000 | 2013 \$'000 |
|---|------|----------------|-----------------|
| Revenue | 3 | 472 | 863 |
| Other income | 3 | 3 | 76 |
| Total Revenue | | 475 | 939 |
| Operating and administration expenses | 4a | (2,798) | (3,846) |
| Asset impairment expense | 4b | (439) | (10,589) |
| Equity settled share based payments | | (1,963) | (2,059) |
| Loss from continuing operations before income tax | | (4,725) | (15,555) |
| Income tax benefit/(expense) | 5 | (631) | 2,579 |
| Loss after income tax expense | | (5,356) | (12,976) |
| Other comprehensive income | | - | - |
| Total comprehensive loss for the year | | (5,356) | (12,976) |
| Loss for the year attributable to: | | | |
| Owners of the parent | | (5,356) | (12,976) |
| Non-controlling interests | | - | - |
| Total loss for the year | | (5,356) | (12,976) |
| Total comprehensive loss for the year attributable to: | | | |
| Owners of the parent | | (5,356) | (12,976) |
| Non-controlling interests | | - | - |
| Total comprehensive loss for the year | | (5,356) | (12,976) |
| Loss per share (cents per share): | | | |
| - basic | 21 | (0.47) | (1.14) |
| - diluted | 21 | (0.47) | (1.14) |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position AS AT 30 JUNE 2014

| | Note | 2014 \$'000 | 2013 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 9,018 | 16,945 |
| Trade and other receivables | 7a | 139 | 262 |
| Inventories | 8 | 377 | 873 |
| Total Current Assets | | 9,534 | 18,080 |
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | 47 | 362 |
| Trade and other receivables | 7b | 169 | 133 |
| Exploration & evaluation expenditure | 10 | 64,278 | 56,566 |
| Total Non-Current Assets | | 64,494 | 57,061 |
| TOTAL ASSETS | | 74,028 | 75,141 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 11 | 3,025 | 504 |
| Short term provisions | 12a&b | - | 433 |
| Total Current Liabilities | | 3,025 | 937 |
| Non-Current Liabilities | | | |
| Long term provisions | 12c&d | 793 | 719 |
| Total Non-Current Liabilities | | 793 | 719 |
| TOTAL LIABILITIES | | 3,818 | 1,656 |
| NET ASSETS | | 70,210 | 73,485 |
| EQUITY | | | |
| Issued Capital | 13 | 130,530 | 130,245 |
| Reserves | 14 | 8,446 | 6,650 |
| Accumulated losses | | (68,766) | (63,410) |
| TOTAL EQUITY | | 70,210 | 73,485 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

**Consolidated Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2014**

| | Issued Capital \$'000 | Accumulated Losses \$'000 | Reserves \$'000 | Total Equity \$'000 |
|--|-----------------------------|---------------------------------|--------------------|---------------------------|
| Balance at 1 July 2012 | 130,055 | (50,434) | 4,614 | 84,235 |
| Total comprehensive loss | | | | |
| Loss for the year | - | (12,976) | - | (12,976) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive loss for the year | - | (12,976) | - | (12,976) |
| Transaction with owners in their capacity as owners | | | | |
| Income tax expense reported in equity | 167 | - | - | 167 |
| Option expense – share based payments | - | - | 2,059 | 2,059 |
| Transfer from options reserve to share capital | 23 | - | (23) | - |
| Total transactions with owners | 190 | - | 2,036 | 2,226 |
| Balance at 30 June 2013 | 130,245 | (63,410) | 6,650 | 73,485 |
| Total comprehensive loss | | | | |
| Loss for the year | - | (5,356) | - | (5,356) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive loss for the year | - | (5,356) | - | (5,356) |
| Transaction with owners in their capacity as owners | | | | |
| Income tax expense reported in equity | 118 | - | - | 118 |
| Option expense – share based payments | - | - | 1,963 | 1,963 |
| Transfer from options reserve to share capital | 167 | - | (167) | - |
| Total transactions with owners | 285 | - | 1,796 | 2,081 |
| Balance at 30 June 2014 | 130,530 | (68,766) | 8,446 | 70,210 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 2014 \$'000 | 2013 \$'000 |
|---|-----------|----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts of refunds of GST and other tax credits | | 970 | 635 |
| Receipt of R&D tax refund | | 604 | 2,746 |
| Payments to suppliers and employees | | (3,618) | (5,223) |
| Interest received | | 614 | 876 |
| Net cash flows used in operating activities | 6a | (1,430) | (966) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (28) | (14) |
| Funds provided for exploration and evaluation | | (6,474) | (3,984) |
| Proceeds from sale of property, plant and equipment | | 5 | - |
| Net cash flows used in investing activities | | (6,497) | (3,998) |
| Cash flows from financing activities | | | |
| Proceeds from share issue | | - | - |
| Capital raising costs | | - | - |
| Net cash flows provided by financing activities | | - | - |
| Net (decrease)/increase in cash and cash equivalents held | | (7,927) | (4,964) |
| Effects of exchange rate changes on cash | | - | - |
| Cash and cash equivalents at beginning of financial year | 6 | 16,945 | 21,909 |
| Cash and cash equivalents at end of financial year | 6 | 9,018 | 16,945 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

For the year ended 30 June 2014

**Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2014**

1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of Preparation

The financial statements of Blue Energy Limited and its controlled entities are general purpose financial statements which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board.

The financial statements have been prepared on an accrual and historical costs basis, modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The financial statements are presented in Australian dollars.

The financial statements of Blue Energy Limited and controlled entities for the financial year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 24 September 2014.

Blue Energy Limited is a company limited by shares, incorporated and domiciled in Australia and whose shares are publicly traded on the Australian Stock Exchange.

The Group has one business activity, being the exploration for gas and petroleum resources. This activity is carried out in a single significant geographical segment, being Australia, principally in Queensland.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Statement of compliance

The financial statements of Blue Energy Limited and controlled entities and Blue Energy Limited as an individual parent entity, complies with International Financial Reporting Standards (IFRS) in their entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Comparatives

The financial report is for the period 1 July 2013 to 30 June 2014. Comparatives between the 2013 and the 2014 year-end balance dates are provided for the Consolidated Entity.

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity

For the year ended 30 June 2014

- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(c) Property, plant and equipment

Each class of plant and equipment is carried at cost or fair value, less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets when the directors consider impairment triggers exist. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets are depreciated on either a straight-line or diminishing value basis over their useful lives commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|-----------------------------|--------------------------|
| Furniture and Fittings | 30% to 40% |
| Plant and Equipment | 30% to 50% |
| Computer Software | 30% to 40% |
| Leasehold Improvements | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

(d) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

(i) Pre-licence costs:

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs:

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

For the year ended 30 June 2014

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

For exchanges/swaps or parts of exchanges/swaps that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised.

(iv) Farm-outs — in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

(e) Income tax

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Blue Energy Limited and its wholly-owned Australian subsidiaries have formed a tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax assets and liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the head entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group has notified the Australian Tax Office that it formed an income tax consolidated group to apply from 1 April 2006. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. Blue Energy Limited is the head entity of the tax consolidated group.

Research and Development Grants are accounted for as Government Grants and as such recognised in the statement of comprehensive income on a systematic basis over the periods in which the Group recognises as an expense the related costs for which the grants are intended to compensate. To the extent that the grant relates to capitalised exploration and evaluation expenditure, it reduces these related costs.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. All inventories are being held for application to exploration expenditure.

(g) Revenue

Revenue is recognised at the fair value of the consideration received or receivable and to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue is recognised as the interest accrues to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Issued Capital

Issued Capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

For equity-settled share-based payment transactions for goods or services received, excluding employee services, the Consolidated Entity recognises and measures the increase in equity at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the Consolidated Entity measures the value of the goods or services received, by reference to the fair value of the equity instrument granted.

The Company has granted options over shares to employees under an employee share option plan. The fair value of options granted is recognised as an expense with a corresponding increase in equity reserves. The fair value is measured at grant date and spread over

For the year ended 30 June 2014

the life of the option taking into account the probability of the options vesting. The fair value of options granted is measured using the Binomial pricing model, taking into account the terms and conditions upon which the options were granted.

The Company has ceased to grant options over shares to employees under an employee share option plan and has implemented an Employee Incentive Rights Plan in its place. The fair value of rights granted is recognised as an expense with a corresponding increase in equity reserves. The fair value is measured at grant date and spread over the life of the right taking into account the probability of the rights vesting. The fair value of rights granted is measured using the Binomial pricing model, taking into account the terms and conditions upon which the rights were granted.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(j) Interest in joint arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

(i) Joint operations:

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

(ii) Joint ventures:

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Group's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The parent entity's interests are bought to account using the cost method.

The statement of profit or loss and other comprehensive income (OCI) reflects the Group's share of the results of operations of the joint venture. Any change in OCI of that investee is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the statement of other comprehensive income as part of operating profit and represents profit or loss after tax and NCI in the subsidiaries of joint venture. The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss and other comprehensive income. On loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss and other comprehensive income.

(iii) Reimbursement of costs of the operator of the joint arrangement.

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss. When the Group charges a management fee (based on a fixed percentage of total costs incurred for the year) to cover other general costs incurred in carrying out the activities on behalf of the joint arrangement, it is not acting as an agent. Therefore, the general overhead expenses and the management fee are recognised in the statement of comprehensive income as an expense and income, respectively.

For the year ended 30 June 2014

(k) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of the doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and short term deposits with an original maturity of three months or less.

(m) Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(n) Financial instruments*Recognition*

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligation exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirements of AASB 139 "Recognition and Measurement of financial assets". Realised and unrealised gains and losses arising from change in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date the Consolidated Entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available for sale instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

(o) Impairment of Assets

At each reporting date, the Consolidated Entity reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

(p) Employee benefits

Provision is made for the Consolidated Entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

For the year ended 30 June 2014

(r) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience, the best available current information and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Recovery of deferred income tax assets:

Judgement is required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred income tax assets recorded at the reporting date could be impacted. In addition future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Joint Arrangements:

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program for each year and appointing, remunerating and terminating the key management personnel or service providers of the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to Note 16 for more details. Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - The legal form of the separate vehicle
 - The terms of the contractual arrangement
 - Other facts and circumstances (when relevant)

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

Reserve and resource estimates:

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas tenements. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of oil and gas development and production assets at 30 June 2014 is shown in Note 10.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement comprehensive income may change where such charges are determined using the UOP method, or where the useful life of the related assets change;
- Provisions for decommissioning may change — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Exploration and evaluation assets

The Group's policy for exploration and evaluation is outlined in Note 2(d). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new

For the year ended 30 June 2014

information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through the Statement of Comprehensive Income.

Fair value measurement:

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, from time to time the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at fair value less costs of disposal. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

Share based payments

In the determination of share based payment expenses, judgement is involved in the determination of the non-market vesting conditions of share based payments.

(s) Going concern

As the Company's assets are in the exploration and evaluation phase, Blue Energy Limited is currently non-revenue generating. As such, a major focus of the Board and management is on ongoing cash flow forecasting and management of cash flows to ensure that the Company has sufficient funds to cover its planned activities and any ongoing obligations. Management is satisfied that the current cash resources and return from cash investments will provide sufficient coverage to fund the proposed work program for at least 12 months after the date of this financial report.

In addition to the close management of cash flows, the Company has significant ability to slow or defer spending on its major activities to ensure that it is able to meet its obligations when they fall due, including deferring expenditure on the exploration program. Future capital raising activities will take place if and when the Board deem that such a raising of funds is appropriate.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

For the reasons disclosed above, the directors believe the company will be able to pay its debts as and when due and therefore that the going concern basis is appropriate.

(t) Parent entity financial information

The financial information for the parent entity, Blue Energy Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements.

3. REVENUE

| | 2014 | 2013 |
|----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Revenue | | |
| Interest received | 472 | 863 |
| Total | 472 | 863 |
| Other Income | | |
| Fuel Tax Credits | - | 76 |
| Net Foreign exchange gain/(loss) | (3) | (8) |
| Gain on sale of asset | 5 | - |
| Other income | 1 | 8 |
| Total | 3 | 76 |
| Total Revenue | 475 | 939 |

For the year ended 30 June 2014

4. PROFIT / (LOSS) FOR THE YEAR

| | 2014 | 2013 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Operating & administration expenses | | |
| Employee benefit expenses | 1,011 | 1,492 |
| Superannuation expense | 116 | 170 |
| Legal fees | 215 | 427 |
| Consultants' fees | 25 | 92 |
| Business development costs | 4 | 5 |
| Depreciation expense | 237 | 102 |
| Travel costs | 132 | 151 |
| Directors' fees | 129 | 204 |
| Accounting and compliance fees | 310 | 458 |
| Occupancy costs | 321 | 322 |
| Insurance costs | 45 | 121 |
| Information systems costs | 99 | 137 |
| Communications costs | 36 | 55 |
| Investor relations costs | 23 | 20 |
| Other | 95 | 90 |
| Total | 2,798 | 3,846 |

| | 2014 | 2013 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| (b) Asset impairment expense | | |
| Exploration expenditure written off/(back) (Refer Note 2(r)) | (38) | 10,289 |
| Inventory impairment charge | 477 | 300 |
| Total | 439 | 10,589 |

5. INCOME TAX

| | 2014 | 2013 |
|--|---------------|----------------|
| | \$'000 | \$'000 |
| a) The components of tax expense comprise: | | |
| Current income tax | | |
| Current income tax charge | (1,909) | (2,201) |
| Adjustments in respect of current income tax of previous years | 513 | (2,746) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | 1,070 | (1,845) |
| Current year tax losses not recognised in the current year | 957 | 4,213 |
| Income tax (benefit)/expense reported in statement of comprehensive income | 631 | (2,579) |

b) The prima facie tax on profit / (loss) before income tax is reconciled to the income tax expense as follows:

| | 2014 | 2013 |
|---|---------------|----------------|
| | \$'000 | \$'000 |
| Accounting loss before income tax | (4,725) | (15,555) |
| Prima facie income tax payable on loss before income tax at 30% (2013: 30%) | (1,417) | (4,666) |
| Sundry non-deductible expenses | 578 | 620 |
| Benefit of tax losses and temporary differences not brought to account | 957 | 4,213 |
| Benefit of prior year tax losses brought to account in the current year | 513 | (2,746) |
| Income Tax (benefit)/expense | 631 | (2,579) |

c) Assets

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Deferred tax assets include: | | |
| Temporary differences, excluding benefits of tax losses, attributable to: | | |
| Provisions | 521 | 494 |
| Accruals | 4 | 4 |
| Business related costs | 325 | 325 |
| Other | 299 | 299 |
| Total deferred tax assets | 1,149 | 1,122 |

d) Liabilities

| | 2014 | 2013 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Deferred tax liabilities include: | | |
| Temporary differences attributable to: | | |
| Exploration and evaluation expenditure | 15,517 | 14,354 |
| Property plant and equipment | 111 | 136 |
| Interest receivable | 15 | 56 |
| Total deferred tax liabilities | 15,643 | 14,546 |

For the year ended 30 June 2014

f) Deferred Tax Assets

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Unrecognised Deferred Tax Balances the benefits of which will be realised when conditions in Note 2(e) are realised: | | |
| Deferred tax assets - Losses | 33,902 | 30,668 |
| Deferred tax assets - Capital Losses | 15 | 15 |
| Deferred tax assets - Other | 1,149 | 1,122 |
| Deferred tax liabilities | (15,643) | (14,546) |
| Net unrecognised deferred tax assets | 19,423 | 17,259 |

There are no franking credits available to shareholders of the Company.

6. CASH AND CASH EQUIVALENTS

For the purposes of the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June 2014:

| | 2014 \$'000 | 2013 \$'000 |
|---------------------------------|----------------|----------------|
| Cash at bank and in hand | 1,372 | 1,168 |
| Short-term deposits | 6,316 | 15,777 |
| Restricted deposit Beach Energy | 1,100 | - |
| Other restricted deposits | 230 | - |
| Total | 9,018 | 16,945 |

The \$1.1 million restricted deposit in favour of Beach Energy Ltd is a bank guarantee secured by a term deposit. The amount is payable at any time up to January 2015. The other restricted deposits of \$229,680 are bank guarantees secured by term deposits relating to financial assurances for ATPs held by Blue Energy Ltd.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of up to six months at a time and earn interest at the short-term deposit rate. Effective interest rate on the short-term deposits was 3.54% (2013:4.37%).

The fair value of cash and cash equivalents of the Group is \$9.018m (2013: \$16.945m).

a) Reconciliation of the loss after tax to the net cash flows from operations

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Loss after income tax | (5,356) | (12,975) |
| <i>Adjustments for non-cash items</i> | | |
| Cash flows excluded from profit/(loss) attributable to operating activities: | | |
| Depreciation | 237 | 102 |
| Net exchange differences | - | - |
| Share options expensed | 1,963 | 2,059 |
| Asset impairment expense | 439 | 10,589 |
| Asset sale gain in financing activities | (5) | - |
| Portion of R&D accounted for as Government Grant | 1,117 | - |
| Income tax expense credited to equity | 118 | 167 |
| <i>Changes in assets and liabilities</i> | | |
| Increase in trade debtors and receivables | (78) | (256) |
| Decrease in trade creditors, accruals sundry provisions | 179 | (623) |
| Increase/(decrease) in provisions and employee entitlements | (44) | (29) |
| Net cash used in operating activities | (1,430) | (966) |

7. TRADE AND OTHER RECEIVABLES

| | 2014 \$'000 | 2013 \$'000 |
|-----------------------------------|----------------|----------------|
| a) Current: | | |
| Goods and services tax receivable | 46 | 25 |
| Interest receivable | 57 | 199 |
| Rental bonds and deposits | - | 18 |
| Prepayments | 31 | - |
| Other receivables | 5 | 20 |
| Total | 139 | 262 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

| | 2014 | 2013 |
|------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| b) Non-current: | | |
| Receivables from Farm-in Partners | - | - |
| Less: Provision for impairment | - | - |
| Tenement related performance bonds | 169 | 133 |
| | <u>169</u> | <u>133</u> |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No allowance (2013: Nil) for impairment of receivables has been recognised as at 30 June 2014.

8. INVENTORIES

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Current at lower of cost and net realisable value | | |
| Stores and consumables | 1,197 | 1,216 |
| Less: Inventory allowance for obsolescence | (820) | (343) |
| Total | <u>377</u> | <u>873</u> |

9. PROPERTY, PLANT AND EQUIPMENT

| | 2014 | 2013 |
|--------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Furniture and fittings at cost | 36 | 33 |
| Less: Accumulated depreciation | (33) | (33) |
| Net carrying amount | <u>3</u> | <u>-</u> |
| Website at cost | 20 | - |
| Less: Accumulated depreciation | - | - |
| Net carrying amount | <u>20</u> | <u>-</u> |
| Plant and equipment at cost | 1,025 | 1,038 |
| Less: Accumulated depreciation | (1,014) | (714) |
| Net carrying amount | <u>11</u> | <u>324</u> |
| Computer software at cost | 466 | 466 |
| Less: Accumulated depreciation | (453) | (428) |
| Net carrying amount | <u>13</u> | <u>38</u> |
| Leasehold improvements at cost | 65 | 65 |
| Less: Accumulated depreciation | (65) | (65) |
| Net carrying amount | <u>-</u> | <u>-</u> |
| Total Cost | 1,612 | 1,602 |
| Total Accumulated depreciation | (1,565) | (1,240) |
| Net carrying amount | <u>47</u> | <u>362</u> |

Movements in carrying amounts

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Furniture and fittings at cost | | |
| Carrying amount at beginning of year | - | - |
| Additions | 3 | - |
| Disposals | - | - |
| Depreciation expense | - | - |
| Carrying amount at the end of the year | <u>3</u> | <u>-</u> |
| Website at cost | | |
| Carrying amount at beginning of year | - | - |
| Additions | 20 | - |
| Disposals | - | - |
| Depreciation expense | - | - |
| Carrying amount at the end of the year | <u>20</u> | <u>-</u> |
| Plant and equipment at cost | | |
| Carrying amount at beginning of year | 324 | 381 |
| Additions | 4 | 10 |
| Disposals | - | - |
| Depreciation expense | (212) | (67) |
| Depreciation charged to exploration | (105) | - |
| Carrying amount at the end of the year | <u>11</u> | <u>324</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

Computer software at cost

| | | |
|---|-----------|-----------|
| Carrying amount at beginning of year | 38 | 71 |
| Additions | - | 3 |
| Disposals | - | - |
| Depreciation expense | (25) | (36) |
| Carrying amount at the end of the year | 13 | 38 |

Leasehold improvements at cost

| | | |
|---|----------|----------|
| Carrying amount at beginning of year | - | - |
| Additions | - | - |
| Disposals | - | - |
| Depreciation expense | - | - |
| Carrying amount at the end of the year | - | - |

Total Property, Plant and Equipment

| | | |
|---|-----------|------------|
| Carrying amount at beginning of year | 362 | 452 |
| Additions | 27 | 13 |
| Disposals | - | - |
| Depreciation expense | (237) | (103) |
| Depreciation charged to exploration | (105) | - |
| Carrying amount at the end of the year | 47 | 362 |

10. EXPLORATION AND EVALUATION EXPENDITURE

The ultimate recoupment of the expenditure on oil and gas interests is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at amounts at least equal to the book value.

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Exploration and evaluation expenditure acquired and recognised on consolidation | 13,648 | 13,648 |
| Other exploration and evaluation expenditure capitalised | 76,624 | 68,594 |
| Restoration asset (Note 12b&c) | 786 | 1,142 |
| Less: Impairment of exploration & evaluation expenditure previously capitalised | (26,780) | (26,818) |
| Total exploration & evaluation expenditure | 64,278 | 56,566 |

Exploration and evaluation costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of other comprehensive income.

11. TRADE AND OTHER PAYABLES

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Current: | | |
| Trade payables ⁽¹⁾ | 1,570 | 231 |
| Deferred payable ⁽³⁾ | 1,000 | - |
| Sundry payables and accrued expenses ⁽²⁾ | 292 | 55 |
| Employee cost & expenses payable | 163 | 218 |
| Total | 3,025 | 504 |

⁽¹⁾ Trade payables include nil amounts payable to key management at the end of the financial year (2013: nil).

⁽²⁾ Sundry payables and accrued expenses include amounts payable to key management of \$75,506 at the end of the financial year (2013: \$48,171).

⁽³⁾ This amount is payable to Beach Energy Ltd as a deferred payment portion for the purchase of the remaining 25% of ATP674 and ATP733.

Trade payables are non-interest bearing and are normally settled on 30 day terms.

12. PROVISIONS

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Current | | |
| Provision for restoration and rehabilitation ⁽¹⁾ | - | 433 |
| Total Current | - | 433 |
| Non Current | | |
| Provision for restoration and rehabilitation ⁽¹⁾ | 786 | 709 |
| Provision for long service leave | 7 | 10 |
| Total Non Current | 793 | 719 |
| Balance at 30 June 2014 | 793 | 1,152 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

| | 2014 | 2013 |
|----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| a) Current | | |
| Provision for legal fees | | |
| Opening balance at 1 July 2013 | - | 684 |
| Additional provisions recognised | - | - |
| Amounts used | - | (684) |
| Unused amounts reversed | - | - |
| Balance at 30 June 2014 | - | - |

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| b) Current | | |
| Provision for restoration and rehabilitation ⁽¹⁾ | | |
| Opening balance at 1 July 2013 | 433 | - |
| Balance transferred from non-current provisions | - | 433 |
| Additional provisions recognised | 5 | - |
| Amounts used | (365) | - |
| Unused amounts reversed | (73) | - |
| Balance at 30 June 2014 | - | 433 |

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| c) Non Current: | | |
| Provision for restoration and rehabilitation ⁽¹⁾ | | |
| Opening balance at 1 July 2013 | 709 | 998 |
| Additional provisions recognised | 129 | 362 |
| Unused amounts reversed | (21) | (197) |
| Balance transferred from non-current provisions | - | (433) |
| Amounts used | (31) | (21) |
| Balance at 30 June 2014 | 786 | 709 |

⁽¹⁾ Future estimated costs for the restoration and rehabilitation of areas affected by exploration activities.

| | 2014 | 2013 |
|----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| d) Non Current | | |
| Provision for long service leave | | |
| Opening balance at 1 July 2013 | 10 | - |
| Additional provision recognised | 3 | 10 |
| Unused amounts reversed | (6) | - |
| Balance at 30 June 2014 | 7 | 10 |

13. ISSUED CAPITAL

| | 2014 | | 2013 | |
|---|----------------------|----------------|----------------------|----------------|
| | Number of | \$'000 | Number of | \$'000 |
| | Shares | | Shares | |
| Ordinary Shares: | | | | |
| Issued & Fully Paid | 1,140,993,237 | 130,530 | 1,139,447,698 | 130,245 |
| Movements in ordinary shares on issue: | | | | |
| Opening balance | 1,139,447,698 | 130,245 | 1,139,296,828 | 130,055 |
| Issue on Exercise of Employee Incentive Rights | 1,545,539 | 167 | 150,870 | 23 |
| Income tax expense reported in equity (Capital raising costs) | - | 118 | - | 167 |
| Closing balance | 1,140,993,237 | 130,530 | 1,139,447,698 | 130,245 |

Ordinary shares have no par value. There is no limit to the authorised share capital of the Company.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Company did not pay a dividend during the year ended 30 June 2014, nor has any dividend been proposed up to the reporting date (2013: \$Nil). Ordinary shares would participate in dividends and the proceeds on any winding up of the parent entity in proportion to the number of shares held.

From 30 June 2014 to the date of this report no shares have been issued.

Options over shares

During the year no options were granted (2013: nil). A total 20,618,250 options lapsed (2013: 8,600,000) and no options were exercised during the year (2013: Nil). None of the options are listed.

From 30 June 2014 to the date of this report no shares have been issued as a result of the exercise of options and no options over shares have lapsed in this period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

The following table lists the unexpired options at balance date:

2014 Option Details

| Grant Date | Exercise Date | Expiry Date | Exercise Price \$ | Fair value at Grant Date \$ | Number of options at beginning of period | Options Granted | Options Lapsed | Options Exercised | Number of options at 30 June 2014 | Number of options vested and exercisable at 30 June 2014 |
|---|---------------|-------------|-------------------|-----------------------------|--|-----------------|----------------|-------------------|-----------------------------------|--|
| 1-May-09 ^(a) | 1-May-10 | 17-Feb-15 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-11 | 17-Feb-15 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-12 | 17-Feb-15 | 0.25 | 0.16 | 833,334 | - | - | - | 833,334 | - |
| 4-Dec-09 ^(a) | 4-Dec-10 | 4-Dec-14 | 0.25 | 0.12 | 3,866,666 | - | - | - | 3,866,666 | - |
| 4-Dec-09 ^(a) | 4-Dec-11 | 4-Dec-14 | 0.25 | 0.12 | 666,667 | - | - | - | 666,667 | - |
| 4-Dec-09 ^(a) | 4-Dec-12 | 4-Dec-14 | 0.25 | 0.11 | 666,667 | - | - | - | 666,667 | - |
| 12-Mar-10 ^(a) | 12-Mar-11 | 11-Mar-15 | 0.25 | 0.11 | 166,666 | - | - | - | 166,666 | - |
| 12-Mar-10 ^(a) | 12-Mar-12 | 11-Mar-15 | 0.25 | 0.10 | 166,667 | - | - | - | 166,667 | - |
| 12-Mar-10 ^(a) | 12-Mar-13 | 11-Mar-15 | 0.25 | 0.10 | 166,667 | - | - | - | 166,667 | - |
| 5-Apr-12 | 5-Apr-12 | 14-Feb-17 | 0.0625 | 0.05 | 82,473,000 | - | 20,618,250 | - | 61,854,750 | - |
| | | | | | 90,673,000 | - | 20,618,250 | - | 70,054,750 | - |
| Weighted average exercise price | | | | | 0.08 | - | 0.06 | | 0.08 | - |
| Weighted average remaining contract life is 913 days | | | | | | | | | | |
| Total expense recognised \$1,802,275 (2013: \$1,340,918) | | | | | | | | | | |
| Fair value of options granted during the year was nil (none granted) | | | | | | | | | | |
| Fair value of options lapsed during the year was \$1,030,913 | | | | | | | | | | |
| (a) Options granted under the current Employee Share Option Plan (ESOP) | | | | | | | | | | |

2013 Option Details

| Grant Date | Exercise Date | Expiry Date | Exercise Price \$ | Fair value at Grant Date \$ | Number of options at beginning of period | Options Granted | Options Lapsed | Options Exercised | Number of options at 30 June 2013 | Number of options vested and exercisable at 30 June 2013 |
|---|------------------|------------------|-------------------|-----------------------------|--|-----------------|----------------|-------------------|-----------------------------------|--|
| Sep-08 Qtr ^(a) | Aug-10 | Aug-13 | 0.25 | 0.22 | 1,133,334 | - | 1,133,334 | - | - | - |
| Sep-08 Qtr ^(a) | Sep-10 to Aug-11 | Sep-12 to Aug-13 | 0.25 | 0.22 | 1,133,334 | - | 1,133,334 | - | - | - |
| Sep-08 Qtr ^(a) | Sep-11 to Aug-12 | Sep-12 to Aug-13 | 0.25 | 0.21 | 1,133,332 | - | 1,133,332 | - | - | - |
| 9-Jan-09 ^(a) | 9-Jan-10 | 8-Jan-14 | 0.25 | 0.13 | 20,000 | - | 20,000 | - | - | - |
| 9-Jan-09 ^(a) | 9-Jan-11 | 8-Jan-14 | 0.25 | 0.13 | 20,000 | - | 20,000 | - | - | - |
| 9-Jan-09 ^(a) | 9-Jan-12 | 8-Jan-14 | 0.25 | 0.13 | 20,000 | - | 20,000 | - | - | - |
| 1-May-09 ^(a) | 1-May-10 | 30-Apr-14 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-11 | 30-Apr-14 | 0.25 | 0.17 | 833,333 | - | - | - | 833,333 | - |
| 1-May-09 ^(a) | 1-May-12 | 30-Apr-14 | 0.25 | 0.16 | 833,334 | - | - | - | 833,334 | - |
| 4-Dec-09 ^(a) | 4-Dec-10 | 4-Dec-14 | 0.25 | 0.12 | 3,866,666 | - | - | - | 3,866,666 | - |
| 4-Dec-09 ^(a) | 4-Dec-11 | 4-Dec-14 | 0.25 | 0.12 | 666,667 | - | - | - | 666,667 | - |
| 4-Dec-09 ^(a) | 4-Dec-12 | 4-Dec-14 | 0.25 | 0.11 | 666,667 | - | - | - | 666,667 | - |
| 17-Feb-10 | 17-Feb-10 | 17-Feb-13 | 0.25 | 0.07 | 4,000,000 | - | 4,000,000 | - | - | - |
| 12-Mar-10 ^(a) | 12-Mar-11 | 11-Mar-15 | 0.25 | 0.11 | 546,664 | - | 379,998 | - | 166,666 | - |
| 12-Mar-10 ^(a) | 12-Mar-12 | 11-Mar-15 | 0.25 | 0.10 | 546,667 | - | 380,000 | - | 166,667 | - |
| 12-Mar-10 ^(a) | 12-Mar-13 | 11-Mar-15 | 0.25 | 0.10 | 546,669 | - | 382,002 | - | 166,667 | - |
| 5-Apr-12 | 5-Apr-12 | 14-Feb-17 | 0.0625 | 0.05 | 82,473,000 | - | - | - | 82,473,000 | - |
| | | | | | 99,273,000 | - | 8,600,000 | - | 90,673,000 | - |
| Weighted average exercise price | | | | | 0.09 | - | 0.25 | | 0.08 | - |
| Weighted average remaining contract life is 1,247 days | | | | | | | | | | |
| Total expense recognised \$1,340,918 (2012: \$690,705) | | | | | | | | | | |
| Fair value of options granted during the year was nil (none granted) | | | | | | | | | | |
| Fair value of options lapsed during the year was \$1,245,572 | | | | | | | | | | |
| (b) Options granted under the current Employee Share Option Plan (ESOP) | | | | | | | | | | |

These options do not entitle the holder to participate in any share issue of the Company.

Options issued under the Employee Share Option Plan from 12 March 2008 onwards have two vesting conditions. The first of these being an exercise date no earlier than either 1, 2 or 3 years from grant date and secondly the shares of the Company must trade for thirty consecutive days on the Australian Stock Exchange with a weighted average share price greater than certain share price hurdles determined by the Company. All other options vest and are exercisable on grant date up to expiry date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

Rights over shares

During the year the Company granted 10,345,000 employee incentive rights (2013: 7,619,000). A total of 5,047,000 employee incentive rights (2013: 6,026,000) lapsed. A total of 1,841,000 employee incentive rights were exercised during the year (2013: 167,000). A total of 1,841,000 employee incentive rights vested on 30 June 2014. None of the employee incentive rights are listed.

From 30 June 2014 to the date of this report the payment of \$4,000 cash in line with the EIRP rules has occurred relating to the vesting of the 645,000 employee incentive rights. No employee incentive rights over shares have lapsed in this period.

The following table lists the unexpired employee incentive rights at reporting date:

2014 Rights Details

| Effective Grant Date | Exercise Date | Type of Right | Exercise Price \$ | Fair value at Grant Date \$ | Number of Rights at beginning of period | Rights Granted | Rights Lapsed | Rights Exercised or Exercisable | Number of Rights at reporting date |
|----------------------|---------------|---------------|-------------------|-----------------------------|---|----------------|---------------|---------------------------------|------------------------------------|
| 01-Jul-10 | 30-Jun-13 | Performance | nil | \$0.095 | 4,693,000 | - | 4,693,000 | - | - |
| 01-Jul-11 | 30-Jun-14 | Retention | nil | \$0.064 | 820,000 | - | 175,000 | 645,000 | - |
| 01-Jul-11 | 30-Jun-15 | Performance | nil | \$0.026 | 4,753,000 | - | - | - | 4,753,000 |
| 01-Jul-12 | 30-Jun-15 | Retention | nil | \$0.059 | 835,000 | - | 179,000 | - | 656,000 |
| 01-Jul-12 | 30-Jun-15 | Performance | nil | \$0.012 | 4,792,000 | - | - | - | 4,792,000 |
| 01-Jul-13 | 30-Jun-16 | Performance | nil | \$0.019 | - | 10,345,000 | - | - | 10,345,000 |
| | | | | | 15,893,000 | 10,345,000 | 5,047,000 | 645,000 | 20,546,000 |

Weighted average exercise price – nil

Weighted average remaining contract life is 465 days

Total expense recognised \$161,006 (2013: \$717,599)

Fair value of rights granted during the year was \$196,555

Fair value of rights lapsed during the year was \$467,596

Fair value of rights exercised during the year was \$203,750. 1,545,539 shares were issued on the exercise of rights. 645,000 rights vested at 30 June 2014.

2013 Rights Details

| Effective Grant Date | Exercise Date | Type of Right | Exercise Price \$ | Fair value at Grant Date \$ | Number of Rights at beginning of period | Rights Granted | Rights Lapsed | Rights Exercised or Exercisable | Number of Rights at reporting date |
|----------------------|---------------|---------------|-------------------|-----------------------------|---|----------------|---------------|---------------------------------|------------------------------------|
| 01-Jul-10 | 30-Jun-13 | Retention | nil | \$0.135 | 1,145,000 | - | - | 1,145,000 | - |
| 01-Jul-10 | 30-Jun-13 | Performance | nil | \$0.095 | 1,333,000 | - | 1,333,000 | - | - |
| 01-Jul-10 | 30-Jun-13 | Performance | nil | \$0.095 | 6,146,000 | - | 1,453,000 | - | 4,693,000 |
| 01-Jul-11 | 30-Jun-14 | Retention | nil | \$0.064 | 1,311,000 | - | 96,000 | 395,000 | 820,000 |
| 01-Jul-11 | 30-Jun-14 | Performance | nil | \$0.026 | 6,206,000 | - | 1,453,000 | - | 4,753,000 |
| 01-Jul-12 | 30-Jun-15 | Retention | nil | \$0.059 | - | 1,337,000 | 201,000 | 301,000 | 835,000 |
| 01-Jul-12 | 30-Jun-15 | Performance | nil | \$0.012 | - | 6,282,000 | 1,490,000 | - | 4,792,000 |
| | | | | | 16,141,000 | 7,619,000 | 6,026,000 | 1,841,000 | 15,893,000 |

Weighted average exercise price – nil

Weighted average remaining contract life is 386 days

Total expense recognised \$717,599 (2012: \$204,328)

Fair value of rights granted during the year was \$154,267

Fair value of rights lapsed during the year was \$356,090

Fair value of rights exercised during the year was \$22,545. 150,870 shares were issued on the exercise of rights. 1,841,000 rights vested at 30 June 2013 and were exercised during August 2013.

Incentive rights under the EIRP comprise retention rights and performance rights. For retention rights to vest the employee must remain with the Company for a period of 3 years from the effective issue date. The portion of performance rights that vest is determined by Blue Energy's total shareholder return (TSR) as determined by an independent advisor over the 3 year period from the effective issue date. The minimum compound annual TSR for the three years is 15% which results in a 25% vesting rate for the employee. At present, the Board has determined that the issue of performance rights will be limited to those individuals (Key Management Personnel) who have a direct ability to influence the performance of the Company.

The weighted average fair value of employee incentive rights issued during the year was \$0.020 (2013: \$0.026). The value of retention rights granted was calculated based upon the maximum number of retention rights issued multiplied by the prevailing share price as at the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

The fair value of performance rights granted was calculated using the Monte-Carlo pricing model utilising the following inputs:

| | Note | 2014 | 2013 |
|-----------------------------------|------|--------------|--------------|
| - Exercise price | 1 | \$0.00 | \$0.00 |
| - Current Stock Price | 2 | \$0.042 | \$0.059 |
| - Barrier for 100% vesting | | \$0.51 | \$0.51 |
| - Expiry date | | 30 June 2017 | 30 June 2015 |
| - Expiry Period | | 4 Years | 3 Years |
| - Expected share price volatility | 3 | 70% | 70% |
| - Risk free interest rate | 4 | 3.002% | 2.42% |
| - Dividend yield | 5 | 0% | 0% |

1. In substance, the performance rights is an option with a zero exercise price.
2. The underlying share price is based on the price of the security on the ASX on 30 June 2014 (2013: 30 June 2013).
3. The recent volatility of the share price of Blue Energy was calculated using Hoadley's volatility calculator, using data extracted from Bloomberg.
4. The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the options. (Source: Reserve Bank of Australia)
5. The Company's best estimate of dividend yield, representing a discount to long-term dividend policy to reflect build up of dividend payout over the life of the performance rights.

14. RESERVES

Option Reserve

The option reserve is used to recognise the fair value of share options and employee incentive rights granted.

| | 2014 \$'000 | 2013 \$'000 |
|-----------------------|----------------|----------------|
| Reserves: | | |
| Options Reserve | 8,446 | 6,650 |
| Total Reserves | 8,446 | 6,650 |

15. CONTROLLED ENTITIES

The consolidated financial statements include the financial statements of Blue Energy Limited and the subsidiaries listed in the following table.

| Name | State/Country of Incorporation | Percentage Owned (%) | |
|-----------------------------------|-----------------------------------|-------------------------|------|
| | | 2014 | 2013 |
| Blue Energy (Qld) Pty Ltd | New South Wales | 100% | 100% |
| Eureka Petroleum Pty Ltd | Queensland | 100% | 100% |
| Kompliment Pty Ltd | Western Australia | 100% | 100% |
| Everdue Pty Ltd | Western Australia | 100% | 100% |
| Energy Investments PNG Pty Ltd | Western Australia | 100% | 100% |
| Galilee Pipelines Pty Ltd | Queensland | 100% | 100% |
| Blue Energy (Wiso) Pty Ltd * | Queensland | 100% | 100% |
| Blue Energy (Maryborough) Pty Ltd | Queensland | 100% | N/A |

* Effective 30 August 2013 Mardian Pty Ltd changed name to Blue Energy Wiso Pty Ltd.

16. INTERESTS IN JOINT VENTURE OPERATIONS

| | Joint Venture Partner | Interest 2014 | Interest 2013 |
|--------------------------|-----------------------|------------------|------------------|
| Burrum CSM Joint Venture | Beach Energy Limited | 100% | 75% |

As the Company now has 100% of these ATPs they are no longer a Joint Venture.

For the year ended 30 June 2014

17. COMMITMENTS

(a) Operating Lease Commitments

The Consolidated Entity leases office premises and car parking under a non-cancellable operating lease. The lease runs for 6 years terminating on 31 March 2020 and has an escalation clause of the higher of 2.5% or CPI capped at 4.5% per annum. There are no renewal rights on the leases.

| | 2014 \$'000 | 2013 \$'000 |
|---------------------------------------|----------------|----------------|
| Within 1 year | 166 | 211 |
| After 1 year but no more than 5 years | 705 | - |
| After 5 years | 140 | - |
| Total | 1,011 | 211 |

18. RELATED PARTY DISCLOSURE

During the financial year the following related party transactions occurred:

Key Management Personnel

Director or Consulting fees were paid to or accrued by the following and are related party transactions:

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Decambruns Pty Ltd – an entity associated with Rodney Cameron (Director of Blue Energy Limited – November 2011 to present) | 65 | 65 |
| Tripenta Energy Solutions – an entity associated with Paul Massarotto (Director of Blue Energy Limited - February 2009 to November 2012) | - | 26 |
| KOGAS Australia Pty Ltd – a company associated with Heung-Bog Lee (Director of Blue Energy Limited – October 2009 to February 2013) | - | 5 |

Other than disclosed above there have been no other transactions with related parties during the year.

The ultimate parent

The ultimate parent entity is Blue Energy Limited.

Subsidiaries

Blue Energy Limited provides funding for the subsidiaries to continue to develop their respective oil and gas exploration and evaluation activities.

Terms and conditions of transactions with related parties

Transactions with related parties are made in arms length transactions both at normal market prices and on commercial terms.

19. KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel Compensation

Key Management Personnel compensation included in employee benefits is as follows:

| | 2014 \$'000 | 2013 \$'000 |
|------------------------------|----------------|----------------|
| Short term employee benefits | 1,058 | 1,322 |
| Post employment benefits | 68 | 89 |
| Termination benefits | - | - |
| Share based payments | 1,959 | 1,925 |
| Total | 3,085 | 3,336 |

For the year ended 30 June 2014

Interests held by Key Management Personnel include the following options/rights over shares:

| | 2014 | 2013 |
|---|-------------------|--------------------|
| | Number | Number |
| Options issued 17/02/2010 expiring 17/02/2015 exercise price \$0.25 | 2,500,000 | 2,500,000 |
| Performance rights issued 01/07/2010 lapsing 30/06/2014 nil exercise price | - | 4,693,000 |
| Performance rights issued 01/07/2011 expiring 30/06/2015 nil exercise price | 4,753,000 | 4,753,000 |
| Options issued 09/04/2012 lapsing 09/04/2014 exercise price 0.0625 | - | 20,618,250 |
| Options issued 09/04/2012 expiring 09/04/2017 exercise price 0.0625 | 20,618,250 | 20,618,250 |
| Options issued 09/04/2012 expiring 09/04/2017 exercise price 0.0625 | 41,236,500 | 41,236,500 |
| Retention rights issued 01/07/2011 vesting 30/06/2014 nil exercise price | - | 461,000 |
| Retention rights issued 01/07/2012 vesting 30/06/2015 nil exercise price | 466,000 | 466,000 |
| Performance rights issued 01/07/2012 expiry 30/06/2016 nil exercise price | 4,792,000 | 4,792,000 |
| Performance rights issued 01/07/2013 expiry 30/06/2017 nil exercise price | 10,345,000 | - |
| Total | 84,710,750 | 100,138,000 |

Details of key management persons and remuneration policies are included in the Directors' Report.

(b) Loans to Key Management Personnel

No loans have been made by the parent or any subsidiary company to any Key Management Personnel during the period or to the date of this report.

20. AUDITOR'S REMUNERATION

| | 2014 | 2013 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Remuneration as auditor of the parent and Consolidated Entity for: | | |
| - auditing the annual financial report | 34 | 34 |
| - review of interim financial report | 11 | 15 |
| Total | 45 | 49 |

In 2014 auditor remuneration relates to Ernst & Young whom was appointed in November 2013. In 2013 audit fees relate to Crowe Horwath.

21. EARNINGS PER SHARE

Basic earnings per share amount is calculated by dividing net profit / (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

| | 2014 | 2013 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Net loss attributable to ordinary equity holders of the parent | (5,356) | (12,975) |
| Weighted average number of ordinary shares for basic earnings per share | 1,140,777,199 | 1,139,437,778 |
| Weighted average number of ordinary shares for dilutive earnings per share | 1,140,777,199 | 1,139,437,778 |
| Basic EPS | (0.47) | (1.14) |
| Diluted EPS | (0.47) | (1.14) |

A total of 70,054,750 (2013: 90,673,000) options and 20,546,000 (2013: 15,893,000) incentive rights outstanding at balance date have not been included in the computation of diluted earnings per share as this result is anti-dilutive in nature.

Since the reporting date the Company has not issued any ordinary shares of the Company.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the issue of these financial statements.

22. CONTINGENT ASSETS AND LIABILITIES

The Directors are not aware of any other material contingent liabilities or contingent assets at 30 June 2014, not otherwise disclosed in this report.

23. SEGMENT REPORTING

The Company operates in a single business segment, being the exploration for gas and petroleum resources. This activity is carried out in a single significant geographical segment, being Australia, principally in Queensland and the Northern Territory, which is consistent with reporting to key decision makers.

For the year ended 30 June 2014

24. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Policies

The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Consolidated Entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial position of the Consolidated Entity. The Consolidated Entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

(a)(i) Financial Risk Exposures and Management

The main risks the Consolidated Entity is exposed to through its financial instruments is interest rate risk, liquidity risk and credit risk.

Interest Rate Risk

The following table sets out the carrying amount of the Consolidated Entity's financial instruments that are exposed to interest rate risk:

| 2014 | Note | Weighted Average Interest Rate | Fixed Interest Rate \$'000 | Floating Interest Rate \$'000 | Non- Interest Bearing \$'000 | Total \$'000 |
|------------------------------|------|--------------------------------------|----------------------------------|-------------------------------------|---------------------------------------|-----------------|
| Financial Assets | | | | | | |
| Cash at bank and in hand | 6 | 2.13% | - | 1,372 | - | 1,372 |
| Short-term deposits | 6 | 3.54% | 7,646 | - | - | 7,646 |
| Trade and other receivables | 7 | - | - | - | 308 | 308 |
| Total | | | 7,646 | 1,372 | 308 | 9,326 |
| Financial Liabilities | | | | | | |
| Trade and other payables | 11 | - | - | - | 3,025 | 3,025 |
| Total | | | - | - | 3,025 | 3,025 |
| 2013 | | | | | | |
| 2013 | Note | Weighted Average Interest Rate | Fixed Interest Rate \$'000 | Floating Interest Rate \$'000 | Non- Interest Bearing \$'000 | Total \$'000 |
| Financial Assets | | | | | | |
| Cash at bank and in hand | 6 | 2.36% | - | 1,168 | - | 1,168 |
| Short-term deposits | 6 | 4.37% | 15,777 | - | - | 15,777 |
| Trade and other receivables | 7 | - | - | - | 395 | 395 |
| Total | | | 15,777 | 1,168 | 395 | 17,340 |
| Financial Liabilities | | | | | | |
| Trade and other payables | 11 | - | - | - | 504 | 504 |
| Total | | | - | - | 504 | 504 |

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year.

Liquidity Risk

The group and parent entity manages liquidity risk by monitoring and managing forecast cash flows.

Credit Risk

At balance date the maximum exposure to credit risk to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

(a)(ii) Capital Management

The Consolidated Entity maintains a system of controls which provide for continual monitoring of future cash flow requirements, allowing it to put in place appropriate facilities to ensure that sufficient funds are available to fund the Company's activities in the short to medium term.

The Consolidated Entity's underlying objectives with respect to managing capital are to safeguard their ability to continue as a going concern to enable the Consolidated Entity to operate to increase shareholder value. While the Consolidated Entity's activities comprise mainly exploration and appraisal operations, funding through equity, rather than debt, is considered to be the most appropriate capital structure.

There were no changes to the Consolidated Entity's approach to capital management or the financial risk management policies during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(a)(iii) Price Risk

There is no price risk exposure as at 30 June 2014 (2013: \$Nil).

For the year ended 30 June 2014

(b) Financial Instruments

(b)(i) Financial Instrument Composition and Maturity Analysis

The following tables reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

The ageing analysis of trade and other receivables is as follows:

| | Note | 2014 \$'000 | 2013 \$'000 |
|------------------------------------|------|----------------|----------------|
| 0 – 30 days | 7a | 139 | 262 |
| 31 – 60 days | | - | - |
| 61 – 90 days | | - | - |
| 91 days + | 7b | 169 | 133 |
| Trade and other receivables | | 308 | 395 |

Movement in Carrying Amounts

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Trade and other receivables assessed as impaired at the beginning of the year | - | - |
| Impairment expense included in the consolidated statement of comprehensive income | - | - |
| Trade and other receivables assessed as impaired at the end of the year | - | - |

Trade and other payables are expected to be settled as follows:

| | Note | 2014 \$'000 | 2013 \$'000 |
|---|------|----------------|----------------|
| Less than 9 months | 11 | 3,025 | 504 |
| Current trade and other payables | | 3,025 | 504 |

(b)(ii) Net Fair Values

Net fair values of financial assets and liabilities disclosed are materially in line with carrying values at 30 June 2014 and 30 June 2013.

(b)(iii) Interest Rate Sensitivity Analysis

The Consolidated Entity has performed a sensitivity analysis relating to exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks. At 30 June 2014, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant are estimated as follows:

| | 2014 \$'000 | 2013 \$'000 |
|-----------------------------------|----------------|----------------|
| Change in profit/(loss) | | |
| - Increase in interest rate by 2% | 180 | 339 |
| - Decrease in interest rate by 2% | (180) | (339) |
| Change in equity | | |
| - Increase in interest rate by 2% | 180 | 339 |
| - Decrease in interest rate by 2% | (180) | (339) |

25. EVENTS SUBSEQUENT TO REPORTING DATE

Aside from the matters disclosed regarding the award on 1st July 2014 of the Cooper Basin permits, there have been no material events from 1 July 2014 to the date of this report that have come to the attention of the Company.

For the year ended 30 June 2014

26. CHANGE IN ACCOUNTING POLICIES

There were a number of new standards and interpretations, effective from 1 July 2013, that the Group applied for the first time in the current year. These included AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 127 *Separate Financial Statements*, AASB 128 *Investment in Associates and Joint Ventures* and AASB 13 *Fair Value Measurement*. While none of these standards required a restatement of previous financial statements or changes in accounting, they did result in, certain disclosures being updated and the accounting policy notes being updated. Refer to note 2 for updated accounting policies. In addition, the application of AASB 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements. Several other amendments apply for the first time in the current financial year. However, they do not impact the annual consolidated financial statements of the Group.

Certain new accounting Standards and Interpretations have been published that are not mandatory for 30 June 2014 reporting periods. As at balance date, the following Standards and Interpretations had been issued/revised but were not yet effective:

| Title | Issue Date | Effective Date |
|--|----------------|----------------|
| AASB 9: Financial Instruments | December 2009 | 1 July 2018 |
| AASB 2012-3: Amendments to Australian Accounting Standards – <i>Offsetting Financial Assets and Financial Liabilities</i> | 1 January 2014 | 1 July 2014 |
| AASB 2013-3: <i>Amendments to AASB126 – Recoverable Amount Disclosures for Non-Financial Assets</i> | 1 January 2014 | 1 July 2014 |
| AASB 2013-4: Amendments to Australian Accounting Standards – <i>Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]</i> | 1 January 2014 | 1 July 2014 |
| AASB 2013-5: Amendments to Australian Accounting Standards – <i>Investment Entities</i> | 1 January 2014 | 1 July 2014 |
| AASB 2013-7: Amendments to Australian Accounting Standards – <i>Amendments to AASB1038 in relation to Consolidation and Interests of Policyholders</i> | 1 January 2014 | 1 July 2014 |
| Annual Improvements to IFRSs 2010-2012 cycle | 1 July 2014 | 1 July 2014 |
| Annual Improvements to IFRSs 2011-2013 cycle | 1 July 2014 | 1 July 2014 |
| AASB1031: <i>Materiality</i> | 1 January 2014 | 1 July 2014 |
| AASB 2013-9: Amendments to Australian Accounting Standards – <i>Conceptual Framework</i> | 1 January 2014 | 1 July 2014 |
| IFRS14: <i>Interim standard on regulatory deferral accounts</i> | 1 July 2014 | 1 July 2016 |
| Amendments to IAS16 and IAS38: <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> | 1 July 2014 | 1 July 2016 |
| IFRS15: <i>Revenue from Contracts with Customers</i> | 1 July 2014 | 1 July 2017 |

It is anticipated that the above Standards and Interpretations are either not applicable to the Company or that adoption in future periods will have no material impact on the Company's financial report.

27. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial report for the parent entity shows the following aggregate amounts:

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|-----------------|
| Statement of Financial Position | | |
| Current assets | 9,150 | 17,695 |
| Total assets | 72,605 | 73,360 |
| Current liabilities | 3,025 | 504 |
| Total liabilities | 3,032 | 514 |
| <i>Shareholders' equity</i> | | |
| Issued capital | 130,530 | 130,245 |
| Reserves | 8,446 | 6,650 |
| Accumulated losses | (69,403) | (64,049) |
| | <u>69,573</u> | <u>72,846</u> |
| Statement of Comprehensive Income | | |
| Loss for the year attributable to owners of the parent | (5,355) | (13,533) |
| Total comprehensive loss attributable to owners of the parent | <u>(5,355)</u> | <u>(13,533)</u> |

(b) Guarantees entered into by the parent entity

The following bank guarantees (secured by term deposits) for the parent entity are in place at 30 June 2014:

Bank guarantee Beach Energy Ltd - \$1,100,000
 Bank guarantees ATPs (financial assurances) - \$261,360
 Bank guarantee other - \$78,804

For the year ended 30 June 2014

(c) Contingent liabilities of the parent entity

See Note 22.

(d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2014, the parent entity had no contractual commitments for the acquisition of property, plant and equipment (2013: \$Nil).

28. COMPANY DETAILS

REGISTERED OFFICE and PRINCIPAL PLACE OF BUSINESS

Level 3
410 Queen Street
Brisbane QLD 4000

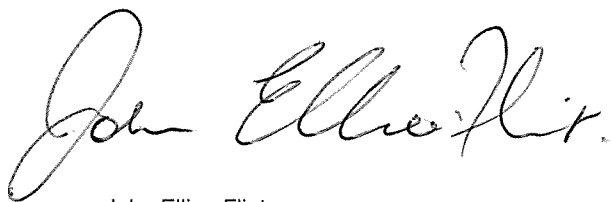
DIRECTORS' DECLARATION

Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 18 to 42, are in accordance with the *Corporations Act 2001*, and:
 - a. comply with Accounting Standards, International Financial Reporting Standards (as stated in Note 1) and *Corporations Regulations 2001*; and
 - b. give a true and fair view of the financial position as at 30 June 2014 and of their performance for the year ended on that date of the Consolidated Entity;
2. the Chief Executive Officer has declared in accordance with the S295A of the *Corporations Act 2001*, that:
 - a. the financial records of the company for the financial year ended 30 June 2014 have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and the accompanying notes referred to in Section 295(3)(b) of the *Corporations Act 2001*, for the financial year comply with the accounting standards;
 - c. the financial statements and notes for the financial year give a true and fair view; and
 - d. any other matters that are prescribed by the regulations for the purposes of this paragraph in relation to the financial statements and the notes for the financial year are satisfied.
3. in the Directors' opinion there are reasonable grounds to believe that the Company and Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



John Ellice-Flint
Chairman

Dated this 24th day of September 2014



Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

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Fax: +61 7 3011 3100
ey.com/au

Independent auditor's report to the members of Blue Energy Limited

Report on the financial report

We have audited the accompanying financial report of Blue Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

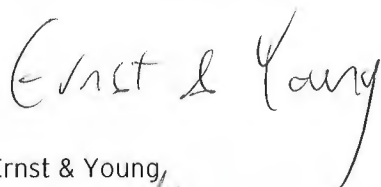
- a. the financial report of Blue Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

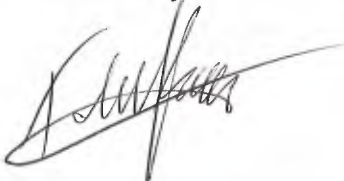
We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Blue Energy Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Tom du Preez
Partner
Brisbane
24 September 2014

ADDITIONAL SHAREHOLDER INFORMATION

Additional Shareholder Information

Additional information required by the ASX Ltd and not shown elsewhere in this report is as follows. The information is current as at 8 September 2014.

(a) Distribution of Equity Securities

Ordinary Share Capital

There are 1,140,993,237 fully paid ordinary shares, held by 5,263 individual shareholders. There is no current on-market buy-back. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of holders of ordinary shares by range is:

| Range | Total holders | Units | % of Issued Capital |
|-------------------------------|---------------|----------------------|---------------------|
| 1 - 1,000 | 248 | 37,562 | 0.00 |
| 1,001 - 5,000 | 697 | 2,357,967 | 0.21 |
| 5,001 - 10,000 | 711 | 6,014,942 | 0.53 |
| 10,001 - 100,000 | 2,407 | 100,887,147 | 8.84 |
| 100,001 - 999,999,999 | 1,200 | 1,031,695,619 | 90.42 |
| 1,000,000,000 - 9,999,999,999 | 0 | 0 | 0.00 |
| Rounding | | | 0.00 |
| Total | 5,263 | 1,140,993,237 | 100.00 |

Unmarketable Parcels

| Minimum Parcel | Holders | Units |
|-----------------------------------|---------|---------|
| Minimum \$ 500.00 parcel at 10000 | 1331 | 5160471 |

Mr John Ellice-Flint holds 61,854,750 (88%) of the Unlisted Options.

(b) Substantial Shareholders

| Name | Units | % of Units |
|---|--------------------|--------------|
| ANZ NOMINEES LIMITED <PRIMEBROKER-PSL NO3 HLDG A/C> | 114,062,417 | 10.00 |
| STANWELL CORPORATION LIMITED | 87,359,198 | 7.66 |
| KOGAS AUSTRALIA PTY LTD | 62,855,000 | 5.51 |
| NATIONAL NOMINEES LIMITED | 58,471,092 | 5.12 |
| Total | 322,747,707 | 28.29 |

(c) Twenty Largest Holders of Quoted Equity Securities

| Name | Units | % of Units |
|---|--------------------|--------------|
| ANZ NOMINEES LIMITED <PRIMEBROKER-PSL NO3 HLDG A/C> | 114,062,417 | 10.00 |
| STANWELL CORPORATION LIMITED | 87,359,198 | 7.66 |
| KOGAS AUSTRALIA PTY LTD | 62,855,000 | 5.51 |
| NATIONAL NOMINEES LIMITED | 58,471,092 | 5.12 |
| JEACH PTY LTD <THE PIPPI SUPER FUND A/C> | 51,976,500 | 4.56 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 30,107,309 | 2.64 |
| UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 24,263,963 | 2.13 |
| BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C> | 21,000,000 | 1.84 |
| ASPAC MINING LIMITED | 20,275,198 | 1.78 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 15,079,506 | 1.32 |
| ROSSDALE SUPERANNUATION PTY LTD <ROSSDALE SUPER FUND A/C> | 14,280,000 | 1.25 |
| MIRRABOOKA INVESTMENTS LIMITED | 14,070,659 | 1.23 |
| GIRDIS SUPERANNUATION PTY LTD <GIRDIS SUPER FUND A/C> | 13,439,847 | 1.18 |
| MR CLEMENT MICHAEL HODDA | 12,408,150 | 1.09 |
| AMCIL LIMITED | 5,040,540 | 0.44 |
| GUPTA MGMT PTY LTD <GUPTA MEDICAL P/L S P F A/C> | 5,000,000 | 0.44 |
| MRS MYFANWY ANN JONES | 5,000,000 | 0.44 |
| MR GRAEME ANDREW MACLENNAN | 5,000,000 | 0.44 |
| MAPT PTY LIMITED <MAP THOM SUPER FUND A/C> | 5,000,000 | 0.44 |
| BETA GAMMA PTY LTD <WALSH STREET SUPER FUND A/C> | 4,168,379 | 0.37 |
| Total | 563,857,758 | 49.86 |

(d) Voting Rights

Ordinary shares carry one vote per share and carry the rights to dividends. Options and rights have no voting rights or rights to dividends.

BLUE ENERGY LIMITED
ACN 054 800 378

DIRECTORS


John Ellice-Flint (Chairman)
John Phillips (Managing Director)
Karen Johnson (Non-Executive Director)
Rodney Cameron (Non-Executive Director)
Johoo Maeng (Non-Executive Director)


COMPANY SECRETARY

Damien Cronin

REGISTERED OFFICE


Level 3, 410 Queen Street
Brisbane Qld 4000


 +61 7 3270 8800

 +61 7 3270 8899

BRISBANE OPERATIONS


Level 3, 410 Queen Street
Brisbane Qld 4000

 +61 7 3270 8800

 +61 7 3270 8899

SHARE REGISTRY

Computer Share Registry Services Limited
117 Victoria Street
West End QLD 4101

 +61 3 9415 4000

AUDITORS

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

STOCK EXCHANGE

ASX Limited
Riverside Centre
Level 5, 123 Eagle Street
Brisbane QLD 4000

Trading code
Ordinary shares: **BUL**